

Reagan, While Praising Pact, Vows to Protect Contra Interests

By Stephen Engelberg
WASHINGTON — President Ronald Reagan has expressed support for the preliminary peace pact reached by five Latin American nations, but he said "there is much work to be done by the parties involved."



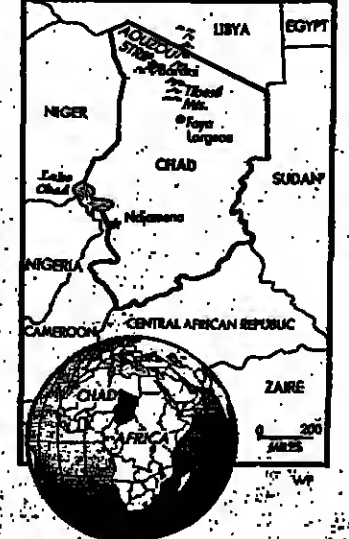
Black South African Mineworkers Begin Strike
Workers leaving the Blyvooruitzicht gold mine in Carletonville, South Africa, at the end of their shift.

Allies Providing Quiet Support to Mission in Gulf, Weinberger Says

WASHINGTON — Defense Secretary Caspar W. Weinberger said Sunday that U.S. allies were quietly supporting the intensified U.S. Navy presence in the Gulf, and he confirmed that new minesweeping efforts had turned up mines.

Chad Recaptures Town And Libyans Retaliate

NDJAMENA, Chad — Chadian troops recaptured the town of Aozou on Saturday after 14 days of fighting with Libya, but Colonel Moummar Gadhafi's air force retaliated within hours Sunday with heavy bombing attacks.



Several Reagan administration officials said that while they were skeptical about Managua's motives in signing the accord, they believed that the administration had no choice but to support the regional peace process in public.

U.S. Effort in Iran Included a Hostage Rescue Plan

By Walter Pincus and Dan Morgan
WASHINGTON — A secret document in the first arms-for-hostages transaction with Iran was a U.S.-Israeli counterterrorism operation in September 1985 that was designed to rescue any American hostages in Beirut who were not freed as a result of the arms shipment.

Soviet Is Said To Deploy Rail Missile

By R. Jeffrey Smith
WASHINGTON — The Soviet Union is believed to have started deploying the world's first strategic nuclear missile able to be launched from railroad cars, according to U.S. officials.

Israeli Bomb Lebanese Sites

TEL AVIV (Reuters) — Israeli helicopter gunships bombed on Sunday a headquarters of guerrillas connected to the radical pro-Iranian group Hezbollah, or Party of God, in southern Lebanon, an army spokesman said.

Chileans Looking Twice At Moves to Democracy

By Shirley Christian
SANTIAGO — "Sometimes I have a dream," a bank chairman said recently, leaning back in his chair. "It is that democracy returns to Chile, that I still have my car and house, my stock is secure and the country takes off in fantastic development — instead of the left bringing back another Allende nightmare."

New 'Football' In Old London

Eric Dickerson broke out of the grasp of Vince Newsome of the Denver Broncos to score the first touchdown Sunday for the Los Angeles Rams, who won the American Bowl in London by the score of 28-27.



The Soviet Union's unfavorable trade balance with the U.S. is behind Mr. Gorbachev's new export policy. Page 11.

- GENERAL NEWS
A Tamil protest held up the surrender of arms by rebels in Sri Lanka. Page 2.
U.S. intelligence officers helped former Nazi collaborators enter Canada after World War II, a historian says. Page 5.
Jean-Marie Le Pen, the National Front leader, has taken his message to French beaches to reach voters. Page 2.
BUSINESS/FINANCE
Peru's president said backlashes from his bank nationalization plan could threaten his government. Page 11.
PERSONAL INVESTING
In California, wine collectors can now be investors — thanks to the state legislature. Page 7.

The Big Guns of August: Paris Media Moguls Stay and Work

By Mary Blume
PARIS — The tradition is nearly as old as the paid vacation, or *congés payés*. In August the sidewalks of Paris are rolled up and the iron shutters pulled down. The exodus begins on July 31, it ends at mid-September.



Eric Dickerson broke out of the grasp of Vince Newsome of the Denver Broncos to score the first touchdown Sunday for the Los Angeles Rams, who won the American Bowl in London by the score of 28-27.

Le Pen Hits the Beaches With Message of French Nationalism



'You voted for policies of the right but what you got were policies of the left.'

— Jean-Marie Le Pen

By Julian Nundy
International Herald Tribune

LA TRINITE-SUR-MER, France — A caravan of seven trailer trucks rolled into this Breton fishing port in the early morning. By mid-afternoon, the big top was ready and the refreshment stand was stocked with drinks and snacks.

That evening, a singer entertained a crowd of more than 2,000 until the music switched abruptly to "Va Pensiero" out of Verdi's "Nabucco." It is a rousing chorus in which the Jews in Babylon lament their separation from their homeland.

As the chorus rose to its crescendo, lights turned on the entrance of the tent and, to a standing ovation, in marched the star of the show: Jean-Marie Le Pen, the leader of France's far-right, anti-immigration National Front.

It was Mr. Le Pen's 14th appearance in what he calls his "beaches tour," a round of political meetings at France's major resorts to catch voters during their summer vacations.

Earlier in the day, girls distributed brightly colored balloons to children, bearing the words "I Love Le Pen," or "Go to it, Jean-Marie." A plane flew overhead dragging a streamer to advertise the meeting.

The tour, effectively the first shot in the campaign for the May 1988 presidential election, has had its fair share of mishaps since it began in Ajaccio, Corsica, on July 15. But, in La Trinite-sur-Mer, Mr. Le Pen's home town, it was an unqualified if predictable success.

Mr. Le Pen, 59, dressed in an open-necked white shirt and white summer

slacks, addressed the usual issues that preoccupy him: the hopelessness of the major conservative political parties, excessive taxation, France's falling birth rate and, of course, immigration.

The stocky, combative Mr. Le Pen had started his day at 8:30 A.M. with a boat trip to visit fishing villages on the rocky Atlantic islands of Hoedic and Houat, small Breton communities where druids once held sway.

During the trip, he explained his view that accusations of racism, leveled at him by his political foes and for which he is quick to sue, were unjust since there was never any incitement to hatred in his words.

If his own speech that night was carefully phrased, this was not so true of the National Front's new anthem, sung by Bruno Forchier, a balladeer who has thrown in his lot with Mr. Le Pen.

Called "Blue, White, Red," the colors of the French flag, it deals bluntly with those "who inoculate us with the blood of barbarity," for whom the solution is "the road to the homeland, with a kick in the ass."

That line drew raucous cheers and laughter from the audience, a conventional-looking crowd whose average age was around 40. They had paid 30 francs (about \$5) to attend, a fee imposed to offset the costs of the tour.

Mr. Le Pen said that most of those who attended his beachside rallies were, in his assessment, people who traditionally voted for the Gaullist Rally for the Republic or its coalition partner, the Union for French Democracy.

"You voted for policies of the right but

what you got were policies of the left," he said.

During the trip to Hoedic, Mr. Le Pen said he saw lessons for France in the current crisis in the Gulf.

"Press articles explain that Saudi Arabia and Kuwait are vulnerable because they have large immigrant populations," he said. "I'm surprised that no one has drawn a parallel with Europe."

That evening, he told his audience that, as in the Gulf, France was at risk from a Moslem population of foreign origin that could destabilize the country in the name of "a grand revolutionary and religious design."

France's Moslems, numbering around 2.5 million, mostly from France's former North African colonies, make up the country's second-largest religious group. About 20 are currently under arrest charged in connection with bombings in Paris last year attributed to a pro-Iranian group.

The keyword in Mr. Le Pen's speeches and in those of his acolytes was "national," a word that is not defined but is clearly intended to classify French citizens of a certain pedigree.

Mr. Le Pen, for example, lamented the fact that France could not put forward a "national" sporting team, made up of "nationals" evidently regretting the contribution of sportsmen of immigrant stock.

The French, he said, were "slipping slowly into decadence and disappearance." Mr. Le Pen is one of four candidates who have already declared that they will run in the election next year. The others are Andre Lajoinie, of the French Communist Party, and two extreme-left candidates.

The major parties have yet to declare their intentions.

In the parliamentary elections last year, the National Front, benefitting from a brief experiment with proportional representation, won 33 seats in the National Assembly with about 10 percent of the nationwide vote.

Now, Mr. Le Pen predicts that he will get around 20 percent next spring, although some of his aides talk in terms of 15 percent to 20 percent. Even 15 percent would be a triumph for Mr. Le Pen, who founded the National Front only 13 years ago.

His beaches tour, which ends in the northern port of Dunkirk on Friday, started Saturday.

At Cagnes-sur-Mer, on the outskirts of Nice, the big top was destroyed by fire — its cause has not been established — and had to be replaced.

At Saint-Tropez, Régine, the nightclub owner, closed down her club, New Jimmy's, for good when a cocktail party was held for Mr. Le Pen in another establishment in the complex in which it is housed. She had said earlier that the National Front leader would "get into the Elysees Palace more easily than into my clubs."

In Lourdes, during an inland stop, Mr. Le Pen was taken to task publicly by a Roman Catholic priest for his policies. He recovered the situation by quipping: "I talk to God, not to his intermediaries."

In several towns, the National Front was refused permission to pitch its tent under local regulations designed to keep nomads out. These rules are considered racist by France's main human rights groups because they are usually applied to Gypsies.

WORLD BRIEFS

Bonn Fears New Guerrilla Attacks

BONN (Reuters) — The urban guerrilla group Red Army Faction has regrouped and is planning a fresh wave of attacks, a West German counterintelligence chief warned Sunday.

Gerhard Boeden, president of the Federal Office for the Protection of the Constitution, told the Cologne Evening Post that the guerrillas had reorganized following a string of arrests in recent years.

The Red Army Faction has announced a strategy and weapons program like it did at the time of the Schleyer kidnapping. Mr. Boeden said in an interview released ahead of publication. In 1971, the group kidnaped Hanns-Martin Schleyer, head of the West German employers' union. His body was later found in a cave.

Israel Denies Abducting Spy Suspect

JERUSALEM (AP) — A government official rejected a newspaper's allegations Sunday that Moshe Verman, a former Israeli nuclear scientist who is accused of leaking nuclear secrets, was abducted by Israeli agents to stand trial.

The Sunday Times of London reported that a female Israeli agent had lured Mr. Verman from London to Rome with promises of work.

He was then kidnapped by other Israeli agents, drugged and shipped to Israel, the newspaper said. "The allegations sound like the basis for a movie script," said a Foreign Ministry spokesman, Elmad Gol.

Mr. Verman, 32, is accused of revealing details of Israeli nuclear development to the newspaper and has been held since October on charges of treason and espionage. At one time he flashed a message to reporters indicating that he had been kidnapped in Rome.

Aquino Lists Anti-Crime Measures

MANILA (WP) — President Corason C. Aquino, under pressure to curb lawlessness after a series of unsolved political murders, announced Sunday that the military would adopt "sweeping measures" including intensified searches and new efforts to check the growth in illegal firearms.

However, Mrs. Aquino rejected calls that she suspend some basic rights of criminal suspects or adopt other martial law measures. She said the new measures would be taken "with all due respect to the guarantees of the constitution" and without turning the Philippines into "a garrison state."

"There will be no constitutional shortcuts to public safety," Mrs. Aquino said. "We shall protect our people's cherished rights and liberties by methods that will honor and not diminish them, even if they help the guilty escape as often as they protect the innocent."

Shultz Aide to Lobby Shamir on Talks

JERUSALEM (Reuters) — A senior aide to Secretary of State George P. Shultz of the United States has arrived in Israel to try to persuade Prime Minister Yitzhak Shamir to accept an international Middle East peace conference, U.S. officials said Sunday.

Charles Hill, the executive assistant to Mr. Shultz, arrived on Saturday for talks with Mr. Shamir and Foreign Minister Shimon Peres, who are divided over the issue. Israeli and U.S. officials said.

Mr. Shamir views the proposal for a conference under UN sponsorship as a Soviet-inspired scheme to force the return of Arab land captured by Israel in the 1967 Middle East war.

South Korean Workers Demonstrate

SEOUL (Reuters) — The police said workers demanding better pay and conditions demonstrated in 400 South Korean cities on Sunday as industry officials warned that 200 companies faced closure because of labor unrest.

About 20,000 workers, who were also demanding the right to form free trade unions, staged sit-ins at about 80 companies in Pusan, Ulsan, Changwon and Masan. No violence, arrests or injuries were reported, the police said.

Labor Minister Lee Heon Ki said Saturday that the growing unrest could endanger South Korea's still-fragile process of political reform.

Afghan Rebels Say 55 Died in Attack

ISLAMABAD, Pakistan (Reuters) — Thirty-five Afghan guerrillas were killed and 20 wounded in a recent ambush near the frontier with Pakistan, a rebel spokesman said Sunday. He said 20 Afghan troops were also killed. No independent confirmation was available.

The spokesman for Hezb-i-Islami (Khalis), one of seven Pakistan-based groups fighting the Soviet-backed Kabul government, said Afghan government troops surrounded a guerrilla band Tuesday when they tried to cut communications between two army posts in the Urgun district of Paktia Province.

The Afghan government's Bakhtar News Agency reported Friday that border forces had seized 19 rocket launchers, 82 light weapons, 35 grenades and a radio in an encounter with guerrillas in the Urgun district, but it gave no casualty figures.

TRAVEL UPDATE

France Lists New Conditions for Visa

PARIS (Reuters) — Many foreigners who wish to visit France for less than three months will have to prove that they have enough money for their trip, the Interior Ministry has announced.

When applying for short-term entry visas, they will have to produce return train or plane tickets, proof of their address while in France and bank references, according to the decree published Sunday in the Journal officiel de la Republique francaise. The measure will not apply to visitors from European Community countries or from non-EC neighbors such as Switzerland and Austria, the journal said.

Interior Minister Charles Pasqua said that the requirement "will be an extra way of fighting illegal immigration." France started issuing visas for some non-EC nationals planning holidays of up to three months in France in September 1986, after a wave of bomb attacks in Paris in which 13 persons were killed.

Delta Air Lines Crew Is Reprimanded

ATLANTA (UPI) — Delta Air Lines has taken "administrative action" against the crew of a Delta jet that came within 100 feet (30 meters) of a Continental Airlines plane in one of a series of incidents involving Delta last month, a company spokesman said.

The Delta L-1011 was en route July 8 from London to Cincinnati with 164 passengers when it strayed 60 miles (100 kilometers) off course near Newfoundland and nearly collided with the Continental jet. The same Delta plane later strayed into the airspace of a British Airways jet. The company did not reveal the nature of the action taken against the crew, which had said there were problems with the plane's navigational equipment.

On Friday, the Federal Aviation Administration withdrew the captain's permit of a Delta pilot who mistakenly shut down the engines on his Boeing 767 jet over the Pacific shortly after takeoff, sending the craft plunging to within 600 feet of the water before the engines were restarted. An agency spokesman said the pilot would be permitted to retain his commercial license, which entitles him to serve as a co-pilot.

This Week's Holidays

Banking hours and government services will be closed or curtailed in the following countries and their dependencies this week because of national and religious holidays:

- MONDAY: Ecuador, Nicaragua, Singapore.
- TUESDAY: Chad, Jordan, Zimbabwe.
- WEDNESDAY: Thailand, Zimbabwe.
- THURSDAY: Central African Republic, Congo, Tunisia.
- FRIDAY: Congo, France, Italy, Ivory Coast, Madagascar, Morocco, Pakistan, Vatican City.
- SATURDAY: Azerbaijan, Austria, Belgium, Cameroon, Central African Republic, Chile, Congo, Costa Rica, France, Greece, Guinea, Haiti, India, Italy, Jordan, Lebanon, Liechtenstein, Luxembourg, Macao, Madagascar, Malawi, Maldives, Papua New Guinea, Paraguay, Portugal, Rwanda, San Marino, Senegal, South Korea, Spain, Taiwan, City, Venezuela.

Black Miners Launch Strike in South Africa

United Press International

CARLETONVILLE, South Africa — The National Union of Mineworkers launched a strike in South African gold mines on Sunday night, and a union spokesman said eight miners were detained in the first minutes of the walkout.

There was no immediate information on how many miners responded to the union's call for a strike by 200,000 members at 28 gold mines and 18 collieries.

First shifts were due to go underground at 9 P.M. By 8:30 P.M., there was no movement in the elevators at mines around Carletonville, about 40 miles (65 kilometers) southwest of Johannesburg. The mines, which include East Driefontein, West Driefontein, Libanon, Kloof and Blyvooruitzicht, appeared calm.

Howard Gabriels, a spokesman for the 320,000-member mineworkers union, said three men were held without charge at Vaal Reef and five at the Blyvooruitzicht mine.

The strike started in the face of a government threat to clamp down on militant labor unions.

The stoppage could seriously disrupt the \$50-million-a-day mining industry, which accounts for 70 percent of South African foreign earnings.

Cyril Ramaphosa, secretary-general of the mineworkers union, said he expected as many as 100,000 workers at mines that do not recognize the union as the official repre-

sentative of their black workers to join the strike.

The 750,000-member Congress of South African Trade Unions, the largest labor federation in the country, said in a statement Saturday that workers in other sectors would strike if employers sought to break the miners' strike with violence.

The strike was called after wage talks broke down last month between the mineworkers union and the nongovernmental Chamber of Mines, which represents mine owners.

The chamber offered and unilaterally implemented increases of 17 percent to 23 percent, which increased the average black wage to 506 rand (\$250) a month. The union is holding out for a 30-percent increase and other benefits, including additional leave and danger pay.

Johan Liebenberg, the negotiator for the Chamber of Mines, said he expected the strike to last two to five days, and warned that employers might begin mass dismissals if it continued beyond that.

He said that employers had the right to dismiss strikers for breach of contract, and added that mine owners would not buckle to strike pressure.

The minister of manpower and public works, Pieter T.C. du Plessis, said Friday that the government was preparing legislation to curb the power of fast-growing anti-government unions.

Funeral Under ANC Flag

A black union member and anti-apartheid activist who was bludgeoned to death last month was buried Saturday under the flag of the outlawed African National Congress, in defiance of regulations under a state of emergency decree issued 15 months ago. The New York Times reported Saturday from Mdantsane, South Africa.

More than 2,500 people attended the funeral service for Eric M. Mntonga in Mdantsane, in the black tribal homeland of Ciskei. Stephen D. Mull, a political officer at the American Embassy, represented the United States at the funeral and appeared to be the only diplomatic representative present.

Mr. Mntonga's killers have not been identified or apprehended.

Cape Town Editor Critical of Press Laws Is Dismissed

The Associated Press

CAPE TOWN — Times Media Ltd., one of the major newspaper chains in South Africa, has dismissed Anthony Heard as editor of Cape Times without explanation.

Mr. Heard, 49, was with the Cape Times, the country's oldest newspaper, with a circulation of about 50,000, for 30 years and served as editor for 16 years. He crusaded vigorously at home and abroad against government press restrictions.

Times Media Ltd. made no mention of Mr. Heard's future and gave no reason for the dismissal, saying only that he had enjoyed a distinguished career and "after 16 years as editor it was felt that the time had come for a successor to be appointed."

Mr. Heard declined to be interviewed about the dismissal, announced late Friday. He will be succeeded by Kees Viviers, now editor-in-chief of Eastern Province Newspapers.

Under Mr. Heard's leadership, the Cape Times often tested press restrictions, imposed under President P.W. Botha's emergency decree in June 1986. He encouraged his reporters to challenge government versions of civil unrest and police actions.



A Tamil prisoner, right, about to be freed in southern Sri Lanka, embracing a comrade not yet released.

Tamil Protest Delays Surrender of Arms

The Associated Press

COLOMBO, Sri Lanka — The surrender of arms by Tamil militants hit a snag Sunday as Tamils in northern and eastern Sri Lanka held a general strike to protest what they said were torture killings by security forces.

In an amnesty under the peace accord, an initial group of 291 Tamil political prisoners was released Saturday. More were expected to be freed Monday.

A senior Sri Lankan official said Sunday that the 6,000-man Indian force policing the peace pact had extended until Aug. 13 the deadline for Tamils to surrender their arms. The deadline has been extended several times since Aug. 3.

The official, who asked that he not be identified, said 286 weapons

had been surrendered, including eight heavy artillery weapons. Other reports said varying numbers of heavy weapons were given up.

The surrendering of arms was stalled for at least a day because of the strike.

The two main rebel groups, the Liberation Tigers of Tamil Eelam and the allied Eelam Revolutionary Students Organization, called a general strike Sunday in the Tamil-dominated Northern Province and the adjacent Eastern Province, where Tamils also make up a large part of the population.

The strike was to protest the reported killing of two rebels Tuesday by security forces on Mannar,

an island off the west coast of Northern Province.

Residents in the north said the strike virtually shut down the region.

In Batticaloa, on the east coast, Sam Thambimuttu, president of the Citizens Committee, said Sunday that Tamil rebels there had not yet given up their weapons.

Residents of the north-central city of Vavuniya said Sunday that no arms had been surrendered in their area south of Jaffna, where the rebels have predominated.

The peace accord is intended to grant semi-autonomy to the Tamils, who make up about 18 percent of Sri Lanka's 16.3 million people.

Eugen Loeb, Ex-Prague Trade Official, Dies at 80

The Associated Press

NEW YORK — Eugen Loeb, a former first deputy minister for foreign trade for Czechoslovakia and the last survivor of a Stalinist purge known as the Slansky Trial, died of heart failure Saturday. He was 80.

Mr. Loeb, who emigrated to the United States in 1968 after the So-

viet invasion of Czechoslovakia, became a well-known economic and political theorist. He wrote 10 books, including "Humanomics" and his autobiography, "My Mind on Trial," both published in 1976.

"Elements of Humanomics," a theory of humanistic economics, have been incorporated into the platforms of political parties in West Germany, France and India

and used by the Vatican in addressing the problems of developing countries.

Mr. Loeb was an economic adviser to Jan Masaryk, minister of foreign affairs of the Czechoslovak exile government during World War II. In 1948 he became first deputy minister of foreign trade.

He was arrested in 1949 and in 1952 became one of 14 top officials,

including Rudolf Slansky, the former party leader, who were forced to confess to high treason and espionage in the Slansky Trial.

Eleven were hanged. Mr. Loeb and two deputy foreign ministers were sentenced to life imprisonment. After serving 11 years in prison, Mr. Loeb was released in 1963.

John Warriner, 80, Author of Textbooks on English

NEW YORK (NYT) — John Warriner, a retired teacher and author of a widely used series of textbooks on English, died of cancer July 29 at his home in St. Croix in the Virgin Islands. He was 80.

Mr. Warriner was the author of "Warriner's English Grammar and Composition" series, textbooks for grades 6 through 12 that were published by Harcourt Brace Jovanovich beginning in 1946.

Koch Leaves Hospital

In Excellent Shape

The Associated Press

NEW YORK — Giving a smile and a thumbs-up sign, Mayor Edward I. Koch of New York was released from the hospital Sunday after treatment for a minor stroke he suffered Thursday.

"What you see here before you is a 28-year-old brain in a 62-year-old body," he said as he left the Columbia-Presbyterian Medical Center. Robert Barrett, one of his neurologists, pronounced him "in excellent shape" after an examination Sunday morning.

INTERNATIONAL POSITIONS		
You will find below a listing of job positions published last Thursday under the rubric International Positions.		
TITLE	SALARY	EMPLOYER
MATERIALS MANAGER	Good	A worldwide under in electrical electronic industry.
FINANCIAL CONTROLLER & TREASURER	Int. Salary	ICARDA.
PUBLIC RELATIONS MANAGER (Europe)	Excellent	Digital Equipment Corporation.
CIVIL CONSTRUCTION ENGINEER		Garrett Fleming.
INVESTMENT MANAGER		Int. Fund Investment.

If you haven't seen last week's INTERNATIONAL POSITIONS rubric, please ask for a free copy: Max Ferraro, INTERNATIONAL HERALD TRIBUNE, 92521 Neulley Codex, France. Tel: (1) 46.37.93.81. Telex: 613595

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One of a series of messages from leading companies of the world appearing during the IHT's anniversary year.

BASF 1986

Another successful year

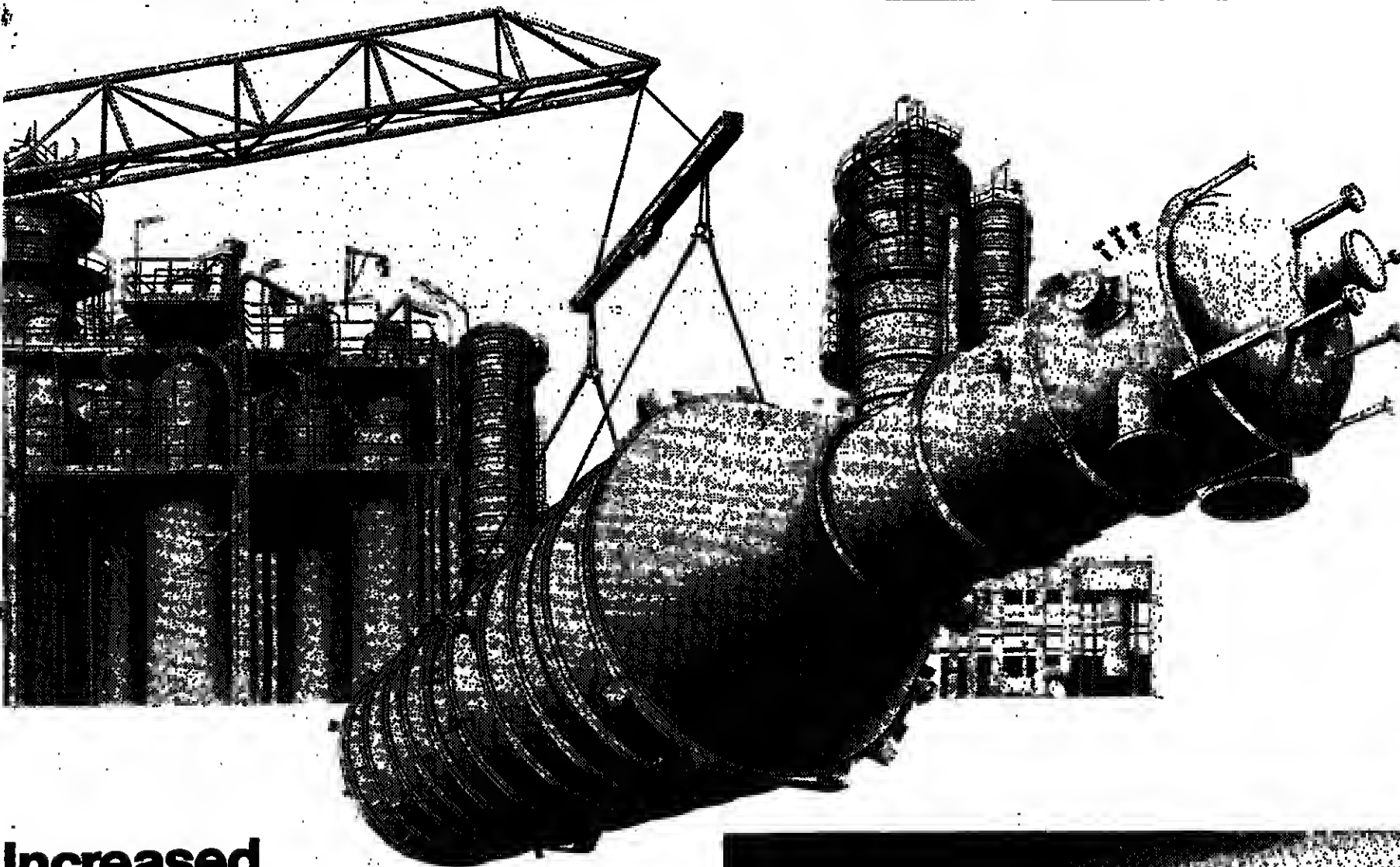
BASF, a major international chemical company renowned for its trail-blazing scientific and technological achievements, is proud to announce its Financial Results.

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The decline in Net Sales was due wholly to extraordinary international factors, and the drop in profits was almost exactly equal to the down-valuing of our oil and gas inventories.

	DM Million 1986	DM Million 1985	% Change
BASF Group			
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After-Tax Profit	910	998	- 8.8
Capital Expenditure	2,657	2,456*	+ 8.2
Employees	131,468	130,173	+ 1.0
BASF AG			
Net Sales	18,717	20,461	- 8.5
After-Tax Profit	710	646	+ 9.9
Capital Expenditure	1,142	884	+29.2
Dividend	535	496	+ 7.8

*Adjusted for acquired assets.



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The Research Expenditure budget of over DM 1.7 Billion, considerably up on 1985, reflects the Group's belief that the long-term view is paramount.

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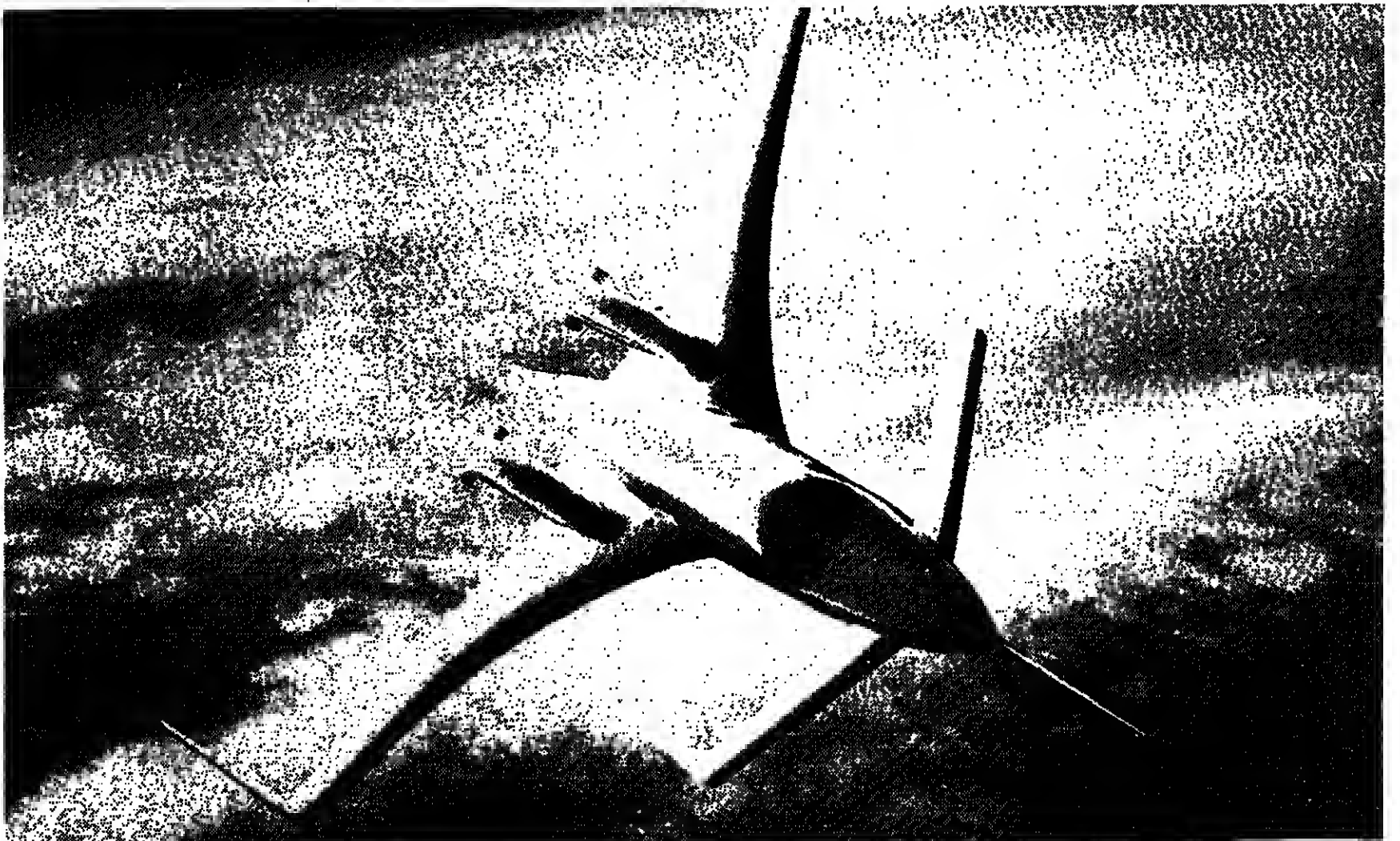
Yet further capacity will come on stream in 1988 when the new Ludwigshafen plant is opened.

Commitment to growth

Above all, underlying BASF Group's 1986 Results is a single minded commitment to growth.

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Beechcraft Starship 1.

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INTERNATIONAL Herald Tribune

Will the Spirits Come?

Resolving most international conflicts depends far less on discovering the proper outcome than on bringing it about. Until the spirits to make tough political decisions are awakened, until the stars have been aligned into a well mapped constellation, all is maneuver or pretense. Consider Nicaragua, the Persian Gulf and the Soviet-American missile pact for Eurasia.

Not Just a Hot Summer

July was detestably hot in Washington, with the Fahrenheit temperature in the 90s more days than in any month as far back as records go. August, so far, is no great improvement. The world's climate is changing.

At Its Cynical Worst

Congress has punctually disappeared on its August vacation, the only deadline it has met all year. The legislators' last act on leaving town was to pass yet another short-term extension of the Treasury's borrowing authority, to keep the government from defaulting while they are at the beach.

Other Comment

One of the Mysteries of the Age American foreign policy is one of the mysteries of the age. All over the United States there are university departments of international affairs, where professors are well paid to ponder about America's place in the world.

INTERNATIONAL HERALD TRIBUNE

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The Arab Side Should Be Fighting to Win

By William Safire

WASHINGTON — In the long Arab-Persian war in the Gulf begun by Arab Iraq's aggression, the Persians have been fighting to win while the Arabs have been fighting to settle. If those strategies continue, the Persians in Tehran will triumph and the United States will have loved itself on the losing side.

A Second Italian Policy Is in Reserve

By Enrico Jacchia

ROME — Would a multinational naval force be the right answer to Iran's mining of the Gulf? The idea is making the rounds in Rome. Two quite different policies are suggested.



Hindu-Moslem Tension Mounts as Gandhi Zigzags

By Bharat Wariawalla

NEW DELHI — As he begins his third year to power, Prime Minister Rajiv Gandhi is a harried man. Trouble after trouble has visited his government in the last six months.

As is the Soviet state. Here it simply means separation of politics from religion. The Congress Party since the days of Mahatma Gandhi and Pandit Nehru has made secularism the cornerstone of the constitution.

Reagan's Nose Could Change The Whole Face of the World

By Michael Oppenheimer and Daniel J. Dudek

NEW YORK — After a third year with skin cancer, President Reagan's nose, as he noted, is a "billboard" warning against excessive exposure to the sun.

IN OUR PAGES, 75 AND 50 YEARS AGO

1912: New York Reacts NEW YORK — [The New York Herald says:] To our friends in other cities who are pointing their fingers at Manhattan Island and saying, "O Lord, how thankful we are that we are not as New York," we would say, watch New York clean house and take a lesson.

They Think The Systems Are Alike

By Jim Hoagland

MOSCOW — Noticing a guide book in English tucked under a stranger's arm, a balding, bearded Georgian stops on the street and breaks into English. "American? Tourist? You have come to see Georgian town, not Russian here," says this teacher, chatting as amiably as would an Italian in Rome who wanted to practice his English by making small talk about his country and mine.



Sandinists Hail Accord But Warn of Obstacles; Opposition Is Cautious

By Stephen Kinzer
New York Times Service

MANAGUA — The Sandinist government has described the accord signed Friday by five Central American leaders as a historic step toward peace but has warned that important obstacles remain. The agreement stipulates an end to the state of emergency in Nicaragua. For five years, the Sandinist government has used emergency rule to prohibit major political demonstrations and restrict civil rights.

Alejandro Bendaña, an official with the Nicaraguan Foreign Ministry, appearing on an ABC News program, said Sunday: "It's a complex package and many of its details need to be worked out, but what we are underscoring is the will to arrive at peace through negotiations and what we need now is the United States' concurrence, because the main thing is to halt the fighting in Central America. That means the U.S. must halt in turn its war against Nicaragua."

He said there was nothing in the Guatemala plan "that says we have to sit down and talk with the contras."

"The contras are a creature and creation of the United States," he added. "The Central Americans recognize this; when will Washington recognize this?"

The Guatemala accord says that "complete freedom for television, radio and press should exist," and that all countries in the region should decree amnesties and embark on "an authentic democratic pluralist process."

In a nationally broadcast speech Saturday, President Daniel Ortega Saavedra indicated that there would be no immediate political changes.

Until now, the Sandinists have maintained that questions such as press and political freedom were internal matters that could not be covered by any international agreement.

The other main aspect of the accord, the prohibition of outside aid to insurgents in Central America, prompted guarded hope in Nicaragua that the civil conflict that has devastated the country since 1982 might be ended.

"We have entered another phase in the struggle for peace," the official Sandinist newspaper Barricada said in an editorial.

The newspaper said that the basis of the Guatemala agreement was recognition of "dialogue and negotiation as the only way to reduce differences, the only course for civilized nations."

Aboard the airliner that carried him back to Managua, Mr. Ortega described the agreement as "a first, great, transcendent and historic step."

"We still have major steps to take before there is peace in Cen-

tral America," he said. "We cannot yet have great expectations."

He added, "We hope the United States government will act rationally for the first time, that it will respect this agreement of Central American leaders and leave us in peace."

The clandestine September 15 radio on Saturday broadcast reactions to the accord from leaders of the U.S.-backed insurgents, known as contras.

They expressed doubt that the Sandinists would comply with clauses requiring democratization and free elections.

Alfonso Robelo Callejas, a former member of the Sandinist junta, said that Nicaraguans had "an experience of betrayal" at the hands of the Sandinists.

"We are familiar with the Marxist-Leninists," Mr. Robelo said. Another contra leader, Adolfo Calero, said that he was willing to work for peace in Nicaragua as long as Sandinist authorities committed themselves to "a peace with freedom, a peace with democracy."



President Daniel Ortega Saavedra of Nicaragua, left, conferring with President José Napoleón Duarte of El Salvador before signing a regional peace accord in Guatemala City.

U.S. Intelligence Suffers Setback Abroad

By Stephen Engelberg
New York Times Service

WASHINGTON — Revelations in the Iran-contra hearings, including details of amateurism and bungling, have shaken the confidence of foreign officials in U.S. secret operations, government officials say. They add that the disclosures have prompted the intelligence services of some friendly nations to share less information with the United States.

Although members of the Iran-contra investigating committees and Reagan administration officials insist that no classified information was disclosed during the hearings, they acknowledge that the continuing exposure of the government's inner workings carried some costs.

William S. Cohen, Republican of Maine and a member of the Senate Iran-contra committee, acknowledged that the detailed picture of ineptitude produced by the hearings would concern foreign officials and intelligence officers.

"There have been costs and embarrassments from exposing the weaknesses of the system," he said. "But it's been necessary. Once you put things back on an even keel, those countries will regain confidence because we have confidence in ourselves."

Several witnesses at the hearings said during public testimony that the detailed disclosures of the arms sales to Iran and the secret support for the Nicaraguan rebels, known

as contras, had severely damaged national security. Lieutenant Colonel Oliver L. North, among others, contended that the hearings had "revealed matters of great secrecy in the operation of our government, and sources and methods of intelligence activity have clearly been revealed to their detriment."

Members of the House and Sen-

ate committees, including some conservative Republicans, disagreed. "No intelligence information was compromised," said Representative Thomas S. Foley, Democrat of Washington.

An administration official contended that hostile intelligence services "could learn more from reading Henry Kissinger's memoirs."

The hearings received mostly approving reviews from the foreign press, with most praising the strength of the American democracy in being able to conduct such a public inquiry, according to a State Department summary of worldwide coverage.

Central Intelligence Agency were disclosed as well. The hearings have had several effects. One official said, for example, that intelligence officers in Costa Rica became less cooperative with their American counterparts after watching television coverage of the hearings received by satellite in San José, the capital.

This official suggested that the Costa Ricans might be afraid their secrets could be publicized in some future public hearing in the United States. "Virtually every source we had in the country dried up," the official said.

A former American intelligence official said counterterrorism offi-

cials in several European intelligence services had told him they had been struck by the ineptitude of the Iran and contra covert operations.

Although countries like Saudi Arabia were irritated when their support of the contras became public — after they had denied giving support — officials expect them to continue aiding covert action of mutual interest.

Leaders of the Iran-contra committees said that one of their main goals had been to avoid damaging American intelligence gathering, particularly by the CIA.

Several panel members said they hoped to avoid repeating the experience of the mid-1970s, when several illegal and unsavory operations involving assassinations and manipulation of governments were disclosed.

The years after those inquiries were marked by low morale and bureaucratic timidity at the CIA and other intelligence agencies.

Senator Daniel K. Inouye, chairman of the Senate Iran-contra committee, said that the panel had decided against public testimony by Robert M. Gates, deputy director of intelligence, in part to avoid embarrassing the CIA.

For example, Mr. Inouye said, Mr. Gates would have been forced to acknowledge that although he was No. 2 at the agency, William J. Casey, the director of central intelligence, had kept him largely in the dark about the Iran and contra operations.

Study Says U.S. Aides Helped Nazi Associates Enter Canada

By John F. Burns
New York Times Service

TORONTO — A study for a Canadian government commission says that people who would have been considered "undesirable Nazi collaborators" were admitted to Canada as immigrants after World War II because of incomplete and misleading information supplied by U.S. intelligence officers.

The study, by Alti Rodal, a historian living in Ottawa, was compiled for the Deschenes Commission. The commission compiled an official report on war criminals in Canada that the government published in March.

The Rodal study, based on secret documents and extensive interviews with officials, influenced the commission's recommendation that immediate action be taken against 20 alleged Nazi war criminals living in Canada and that 218 other immigrants be subjected to further investigation.

The government introduced legislation, still pending, to allow for war crimes trials in Canada. But it ignored the commission's recommendation that the Rodal study be published, and it released the report only last week, heavily censored after The Toronto Star petitioned for the document under Canada's Access to Information Act.

The study says that government inquiries in recent years have shown that in the early 1950s U.S. intelligence officials pushed "eastern Europeans with false identities through the immigration stream in Canada."

At the time, according to the study, William Kelly, a Royal Canadian Mounted Police officer screening immigration applications in Germany, became suspicious about U.S. intentions when he noticed a number of applications "all neatly typed and emanating from an address in the American zone of occupation."

As a result, the Rodal study contends, "there were instances in which American intelligence officers withheld information from and misled Canadian authorities as to the true background of prospective immigrants to Canada, persons who would have been inadmissible on grounds of 'moral turpitude,' the category for undesirable Nazi collaborators."

Elsewhere in the study, Miss Rodal concludes that "significant numbers" of war criminals were among the 620,000 immigrants who came to Canada in the two decades after World War II from 12 European countries where war crimes were common.

The study's conclusions appear to tally with the U.S. Justice Department's disclosure in 1983 that American intelligence agencies in Europe knowingly employed and protected former Nazis, including Klaus Barbie, who was recently

convicted in a French court of crimes against humanity. The U.S. investigation showed that American officials had assisted some of the former Nazis in acquiring new identities that made it possible for them to leave Europe and settle elsewhere, notably in South America.

Although it was Miss Rodal's allegations about the role of U.S. intelligence agencies that made headlines here, her study also contained much that was embarrassing to the Canadian government.

She asserted that two alleged Nazi war criminals were admitted to Canada in 1983 because a German-born senior officer of the Mounted Police, along with other officers described by the study as having sympathies that "inclined them towards leniency with regard to former Nazis," destroyed documents relating to the immigrants' Nazi pasts.

As released, the study offers no information about the identities or whereabouts of the alleged collaborators who entered Canada with the assistance of U.S. intelligence officers or of the two men who entered in 1983.

The government, in censoring the document, said that it was doing so to protect individuals and ensure fair trials if any of them were brought to court.

Some of the censorship involved passages dealing with two former prime ministers, the late Louis St.

Laurent and Pierre Elliott Trudeau. Mr. St. Laurent is depicted as having agreed to the resettlement in Canada in 1949 of a Nazi collaborator from Czechoslovakia, Karol Sidor, after a direct appeal from Pope Pius XII.

Mr. Sidor, previously commander in chief of the Hlinka Guard, a Slovakian storm trooper unit, had been reassigned in the Vatican as the delegate of Nazi-occupied Slovakia.

The study quotes a letter from the Apostolic delegate in Canada telling the Canadian authorities that he "cannot settle down anywhere in Europe without undergoing serious inconveniences and vexations."

Mr. Trudeau, who retired in 1977, was also depicted as having been "personally involved" in communicating with purported Nazi war collaborators from Vichy France who settled in Quebec after having been convicted in absentia in French courts.

Mr. Trudeau is described in the study as having opposed action against purported war criminals when the matter was put before the cabinet in the early 1980s.

Three pages of the study dealing with his attitude and with instances in which he opposed measures proposed by other members of his government were deleted before publication on the ground of cabinet secrecy.

U.S. States It May Close PLO Washington Office

By Charles R. Babcock
Washington Post Service

WASHINGTON — After months of internal debate, the Reagan administration has said for the first time that it is considering closing down the Palestine Liberation Organization's office in Washington.

According to State Department officials, recent PLO actions, such as keeping Mohammed Abu Abbas, mastermind of the Achille Lauro hijacking in 1985, on its executive board, contributed to the decision on the politically sensitive issue.

The PLO's Washington office and its office at the United Nations are the target of legislation by members of Congress who argue that they are symbols of terrorism. Other members counter that shutting the office would violate U.S. precepts of freedom of speech and harm U.S. efforts to arrange peace talks between Israel and a Jordan-Palestinian delegation.

Secretary of State George P. Shultz wrote sponsors of the legislation that the administration opposes the bill because it would vio-

late the president's powers in foreign policy. But he added that the administration is considering closing the PLO's Washington office, the Palestine Information Office, on its own.

"Closure of the PLO as a foreign entity," allowed up to now to operate by the U.S. government, would of course represent a symbolic shift in the U.S. government's relationship to the office, underscoring our disapproval of the PLO's retention of Abu Abbas on the Executive Committee," Mr. Shultz wrote in a July 31 letter to Senator Charles E. Grassley, Republican of Iowa, and Representative Jack Kemp, Republican of New York, sponsors of the legislation.

"Such a gain may be sufficient to warrant Executive Branch action in this regard at the appropriate time," Mr. Shultz added.

His pronouncement followed months of internal discussions by State and Justice Department lawyers on the legal authority for such a move.

One State Department official said that the U.S. authorities were "shocked" by the PLO's decision at a recent conference in Algiers to put Mr. Abbas back on its executive board. The United States has sought his extradition on hijacking and murder charges since the hijacking of the Achille Lauro cruise ship in October 1985, which resulted in the murder of an elderly American.

The Shultz letter noted that closing the PLO observer mission at the United Nations would violate a U.S. treaty obligation and would lead to a probable defeat at the World Court and "a propaganda gain" for the PLO.

Mail-In Testing Kits for AIDS Draw Criticism From U.S. Health Officials

By Lori B. Miller
New York Times Service

NEW YORK — Several U.S. companies plan to offer mail-in testing kits for the AIDS virus, stirring concern among public health officials and drawing criticism from many doctors and others who work with AIDS patients.

The companies promoting them say they will reach a segment of the population that would otherwise not get tested; people who refuse to go to a physician or to a public testing site because of the stigma associated with AIDS, or acquired immune deficiency syndrome.

But many health experts question the accuracy of the mail-in tests. And they say it is dangerous to notify users of the kits about positive test results without offering them personal counseling about the implications.

"Right now, there is nothing more devastating than finding out your AIDS test might be positive," said Dr. Robert E. McAfee, a trustee of the American Medical Association and a surgeon in Portland, Maine. "Finding out over the telephone does not meet the compassionate, sensitive, psychological needs of a patient."

Most of the kits require an individual to prepare a blood sample at

home and send it to a laboratory for evaluation. Those using the kits would identify themselves by number and would receive their test results either in the mail or over the telephone.

The kits, costing \$24.95 to \$50, would be sold in pharmacies and medical clinics as well as by mail-order.

At least three companies are awaiting approval from the Food and Drug Administration for their at-home blood-sampling kits.

One test-kit company that is already operating, National AIDS Testing Hotline Inc. in Fort Lauderdale, Florida, requires customers to have blood drawn at a professional laboratory. They then send it to the company for private notification of results.

The FDA said it was studying whether the company's procedures were subject to federal approval.

Some officials say they suspect that other companies have been offering similar services without federal approval.

Robert Komescher, project officer at the Centers for Disease Control in Atlanta for the AIDS National Hot Line, said federal health officials took a dim view of mail-in AIDS testing kits. He said: "Our position on testing has

been made very clear: We have always stressed that testing should not be done without pre- and post-test counseling, and this is a position of every public health authority in the country."

Pentagon Clears Japan Firms

New York Times Service

NEW YORK — The Defense Department, in an unusual move, has said its officials had no knowledge of high-technology diversions involving the NEC Corp., Mitsubishi Heavy Industries or Sumitomo Heavy Industries.

All three companies have been named in news reports in Japan in the last week, after a Japanese newspaper, drawing on an interview with Stephen D. Bryen, who heads the Pentagon's export control office, quoted Mr. Bryen as alluding to the companies. In his statement on Friday, the Pentagon said Mr. Bryen had been misquoted.

NEC has strongly denied it engaged in any diversions.

SHE HAS THE STRAIT DOWN COLD — Lynne Cox, 30, swimming ahead of two escort boats on her way to crossing the Bering Strait, which separates Alaska and the Soviet Union. Despite spending about two hours in 6-degree-centigrade waters, Ms. Cox, inset, with smiles Friday after reaching the Soviet island of Big Diomedes.

The Californian set out from the U.S. island of Little Diomedes and swam more than four miles to compensate for tides and currents in making the 2.7-mile crossing. No one is known to have attempted such a swim before. A spokesman for the U.S. Coast Guard said that a person would normally survive only 30 minutes in the icy water.

Pretoria Says It Will Negotiate on Namibia

By John D. Battersby
New York Times Service

CAPE TOWN — The South African government, having reopened security talks with Mozambique after a two-year lapse, now appears ready to negotiate with Angola and Cuba on withdrawing Cuban troops from Angola and an independence settlement in South African-ruled South-West Africa.

Neil P. van Heerden, the director-general of the Department of Foreign Affairs, said that South Africa would talk to any party involved in the issue of independence for South-West Africa, or Namibia.

He said that included Cuba, Angola and the South-West Africa People's Organization, or SWAPO, the guerrilla organization that has been fighting for independence for 21 years.

But he said he doubted whether Soviet commitments in Angola would allow the Angolan government much "leeway to negotiate."

Mr. van Heerden took part in ministerial talks last week with Mozambicans that led to a revival of a South African pact agreed upon in 1984.

President José Eduardo dos Santos of Angola said in late July that he was prepared to be more flexible over the partial withdrawal of an estimated 35,000 Cuban troops in his country in return for independence of South-West Africa, the withdrawal of South African troops from Angola and an end to U.S. aid to anti-government rebels.

The Angolan rebels are backed by South Africa and receive \$15 million a year in military aid from the United States. Both the United States and South Africa have linked any progress toward Namibian independence to the withdrawal of Cuban troops from Angola.

Talks between the U.S. assistant secretary of state for African affairs, Chester A. Crocker, and Mr. Dos Santos ended abruptly last month, with Mr. Crocker calling them "a waste of time." But Mr. Dos Santos has since extended an offer to Pretoria of four-way talks with South Africa, Cuba and the Namibian rebels.

Mr. van Heerden said that the breakdown in talks between Angola and the United States would not prevent further contacts between Pretoria and Angola.

He said that despite U.S. sanctions and corporate disinvestment in South Africa, he did not believe there had been a fundamental change in Washington's policy toward Pretoria.

Brazil Boosts Angolan Oil Imports

By Juan de Onis
International Herald Tribune

RIO DE JANEIRO — Brazil has signed an agreement with Angola to increase oil purchases, further strengthening its ties with black Africa.

An economic agreement reached in Rio de Janeiro last week will double Brazilian oil imports from Angola to 20,000 barrels a day.

For its part, Brazil will extend a \$100 million line of credit to finance Angolan imports of Brazilian manufactured goods, it was announced.

The agreement on increased oil purchases from Angola came as military hostilities in the Gulf

raised concern over oil supplies from that region. Brazil is importing 235,000 barrels a day from Iraq, Saudi Arabia, Kuwait and Qatar.

The deal with Angola, reached during a visit to Rio last week by Pedro de Castro Van Dunem, the Angolan minister of production, had political as well as economic significance for two countries that have historic and ethnic ties as former Portuguese colonies.

Today, Brazil is an industrialized country that exports manufactured goods, including arms, and has contractors with international experience building highways, dams and railroads. Angola depends heavily on oil exports.

"Brazil has been asleep toward

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Allies, Fearing Terrorism, Exclude Iranian Officials From West Berlin

BERLIN — The Western allies barred a number of Iranian diplomats and other officials from West Berlin over the weekend against a backdrop of growing concern that U.S. involvement in the Middle East could provoke guerrilla attacks.

The United States, Britain and France, the allied military administrations in charge of security in the city, issued a decree Saturday effectively excluding 10 to 20 officials of the Iranian Embassy in East Berlin and Tehran's consulate in the western sector of the city.

An allied spokesman would not say how long the officials in West Berlin were given to leave the city. But one security source said they would have to be out by Tuesday.

"We don't take measures like this without believing there's a terrorist danger," one allied source said. "We must bear in mind La Belle."

Just over a year ago a bomb killed three persons and injured more than 200 in the La Belle discotheque, a popular meeting place for members of the 6,000-strong U.S. military contingent in Berlin.

The Iranian ambassador in East Berlin, Hamid Reza Assefi, dismissed the allies' action as absurd and asserted that it was part of a global U.S. plot aimed at stoking conflict with Tehran's revolutionary leadership.

"In our eyes and the eyes of a billion other Moslems, the terrorist government is the Reagan administration," he said. "What they say about us is absolutely untrue."

The decree made no specific allegations of guerrilla plans, but security sources said fears of a bomb attack had grown since Tehran blamed Washington for clashes in Mecca in which hundreds of Iranian pilgrims were killed. Iran has also denounced the role of U.S.

ships escorting Kuwait tankers in the Gulf.

Washington accused the Libyan Embassy in East Berlin of smuggling the bomb used at the discotheque over the border and issued an order, still in force, that excludes Libyan diplomats from the Western sector.

In November, officials of the Syrian Embassy in East Berlin, except for the ambassador, were excluded after Damascus was implicated in an attack on an Arab social center in West Berlin.

A body called the Berlin Kommandatura, set up by the U.S., Soviet, British and French authorities in 1945 to rule the occupied city, issued the bans.

Moscow walked out of the Kommandatura in 1948, which means that its rulings, though theoretically valid for both East and West Berlin, cannot be enforced for the Soviet-controlled East.

CONVOY: U.S. Cites Support

(Continued from Page 1)

sive line" but had not recently put them in the path of U.S. warships escorting Kuwait tankers.

"We have had mines in the Persian Gulf because it is a war zone, and the Iraqis have laid it, we have laid it," Mr. Rajala-Khorassani said.

Mr. Weinberger said that recent U.S. minesweeping efforts following the mining of the Bridgeton had turned up other mines.

"We destroyed mines outside Kuwait harbor," he said. "We don't know if the those specific mines were owned by Iran, but we have every reason to believe they were."

Iran recently completed four days of naval maneuvers, called Operation Martyrdom, and reported that its fleet of speedboats was ready for suicide missions against U.S. ships.

Mr. Rajala-Khorassani said, "They are not all suicide-oriented boats," and he denied that Iran engaged in terrorism.

Iran has also pledged to stage attacks against U.S. targets around the world, including within U.S. borders, and has blamed the United States for the Mecca rioting.

"To call what we do for our defense 'terrorism' is a very nasty way of explaining it," Mr. Rajala-Khorassani said, calling the U.S. role in the region "very irrational" and "very explosive."

Mr. Weinberger said that the Iranians themselves "were responsible for the carnage at Mecca."

"The Iranians are not rational," he said. "They break every code in the world. They do that whether you have your eyes on display or you don't."

RESCUE: Initial U.S. Efforts in Iran Included a Counterterrorism Plan

(Continued from Page 1)

Mr. McFarlane's reference was to the possible rescue attempt.

According to the notes, Mr. McFarlane said at the luncheon meeting that, after Mr. Weir's release, the hostage release program was "not going anywhere."

A source close to Mr. McFarlane said the former national security adviser had no recollection of the luncheon meeting.

President Ronald Reagan and his top advisers have said repeatedly since the arms sales were exposed in November that a main U.S. motive was to create an opening to "moderates" in Iran. But a rescue mission that took advantage of an arms deal would have heightened the mistrust between the two countries and could have endangered not only the hostages but the lives of any Iranians associated with the operation, according to one of the U.S. participants in the hostage negotiations.

The financing of the September 1985 TOW sales by Israel, which made clear that Iran was willing to pay far in excess of cost, created large profits that would be available for other purposes, and thus provided a model for what later became the diversion of such proceeds to aid the Contras, as the Nicaraguan rebels are known.

Colonel North's notes and testimony from the Iran-contra hearings suggest, however, that the first ideas for use of such proceeds may have been in the area of U.S.-Israeli counterterrorism projects or in relation to Mr. Casey's vision for a "self-financing" entity that would be able to conduct "off-the-shelf" covert projects.

These, Colonel North argued, would not have been funded with appropriated U.S. government money and thus would not necessarily be subject to U.S. laws or congressional oversight.

The initial arms shipments took place amid mounting White House concern and frustration over terrorism, including the June 1985 hijacking of TWA Flight 847 and the October 1985 seizure of the Achille Lauro cruise ship.

Colonel North, according to former colleagues, was impressed with the direct tactics of the KGB after three Soviet diplomats and a doctor were seized, and one of the diplomats slain, in the autumn of 1985 in Beirut. The three survivors were released in December after the KGB seized relatives of the captors, tortured and killed one of them, and threatened to do the same with the others.

"It's necessary to attack terrorists directly, but U.S. laws on the books make that difficult to do," said a North colleague who was not a participant in the operations.

"It's illegal to assassinate Abu Nidal, but we can bomb Libya and

kill some innocent people to make a point against terrorism."

Colonel North, according to his notebooks, had dealings with Mr. Nir, the Israeli expert, as early as June 1985.

On Jan. 7, 1986, according to a notebook entry, Mr. Nir called Colonel North. "Regarding the first 504," the colonel wrote in a reference to the September 1985 TOW shipment, "it was agreed that the \$ was used for other purposes." This appears to refer to the fact that somebody in the U.S. government had authorized Israel to use part of the \$5 million from Iran for something other than missile replacements.

During Mr. Nir's visit to Washington just before that, the Israeli counterterrorism specialist indicated the desire to use the residuals, or profits from future arms sales in Iran, "for other activities," Colonel North told the Iran-contra panel. He said he had "sought approval from my superior for those operations" and had discussed them with Mr. Casey.

On the eve of a September 1986 visit by Prime Minister Peres, Colonel North suggested that Mr. Reagan be briefed on certain "sensitive" joint initiatives involving the hostages. The colonel, who testified that these initiatives were paid for by arms sales proceeds, provided details at a closed session of the congressional committees.

The military rescue option was considered in June 1986, immediately after a delegation in Tehran headed by Mr. McFarlane delivered a partial shipment of Hawk anti-aircraft missile parts but failed to secure the release of the remaining U.S. hostages.

On June 6, Mr. Reagan approved military planning to rescue the hostages, and Rear Admiral John M. Foudry, Mr. McFarlane's successor as national security adviser, asked Mr. Casey to intensify efforts to locate them, according to the Tower board.

Admiral Poindexter wrote Colonel North: "I am beginning to think seriously about a rescue effort for the hostages. Is there any way we can get a spy into the Hayy Assalam area?"

He added: "Over a period of time we could probably now covertly some people into Yazez."

Both areas are in the immediate outskirts of Beirut.

According to the Tower board, Colonel North noted that Richard V. Secord, a retired air force major general who was a main figure in the affair, had been working with Mr. Nir and "now has three people in Beirut and a 40-man Drouze force working for us. Dick rates the possibility of success on this operation as 30 percent, but that's better than nothing."

the rest of the country August is a vivid illustration of Sartre's statement that hell is other people. It is a moment when newspaper headlines fall into the language of a military campaign and July 31 is called D-Day or Jour-J. "Twenty-seven million Frenchmen leave on vacation, 8,000 will not return," one headline claimed, in effect sounding taps before reveille.

It has been estimated that the French devote one-twelfth of their budgets to vacations. Still, 80 percent do not go away at all. They are the aged and immigrant workers who might not feel all that cozy on a Breton beach.

To the French the summer vacation is the high point of the year, in effect more than a constitutional right because while no one has read the constitution everyone knows about the law of 1936 that created the *congés payés*. The economic consequences of the country's shutting down for the month of August are grave and, it appears, beyond cure.

Pointing out that 70 percent of French industry closes up shop in August (automobile production alone drops by 80 percent), Le Monde had an article last week on the failures of sensible attempts to spread vacations over a period of several months.

"One of the most energetic combatants of the August shutdown was André Henry, minister of *temps libre*, or leisure time, in 1981-83. Mr. Henry, a Socialist, published a meteorological study that showed June was the sunniest month of the year and called the French August an economic aberration. But he was unable to change his countrymen's habits. The only new shutdown that occurred was his ministry, which Jacques Chirac has put under the department of tourism."

OPTIONS: U.S. Ponders Responses to a Raid by Iran

(Continued from Page 1)

an coastal targets. Marine artillery specialists could be slipped ashore to direct the gunfire, so there would be no repetition of the failure to hit most targets in Lebanon in 1983.

The battleship Missouri is expected to arrive in the Arabian Sea by mid-August, along with six other ships.

Since naval officers oppose sending a battleship into the Gulf's confined waters, the Missouri's huge 16-inch (400mm) guns may not be fired. But the ship is armed with Tomahawk cruise missiles, which could be fired from far at sea at targets 500 miles inland.

Another possibility is that cruise missiles could be fired from submarines in the Arabian Sea. The Iranians would never know where they had come from.

The Navy does not disclose submarines' movements, but it is standard for at least two of them to accompany an aircraft carrier. Many of the submarines have been armed with Tomahawks.

While retaliation might be relatively simple, a larger military operation would be extremely difficult if an Iranian invasion of Kuwait or Saudi Arabia prompted a request from their governments for sustained military support.

Marines could be flown in and then pick up arms aboard ships that would have sailed to the Gulf from Diego Garcia. Paratroopers could reinforce the marines.

The terrain would favor U.S. forces, since the invasion route from Iran to Saudi Arabia is a nar-

row corridor on the west coast of the Gulf.

But the mission would be difficult. The Strait of Hormuz is half-way around the world from the United States. U.S. armed forces lack air and sea transport to sustain a flow of troops, weapons and supplies, and the United States lacks bases, communications and water supplies in the region.

"Anyone thinking of sustained operations in that part of the world would be nuts," said an officer privy to the Joint Chiefs' thinking.

A greater difficulty would arise from an attack of ambiguous origin, such as the bombing of a U.S. embassy or an explosion aboard a fishing boat that had sidled up to an American warship.

CHILE: Many Look Twice

(Continued from Page 1)

market economic policies continue, whatever the government.

Mr. Ayala said he was confident that the military intended to keep its word and gradually return Chile to democracy.

"It has tremendous respect for the Chilean armed forces," he said. "They are committed to lead the country to democracy, and if they are committed, they will do it, no matter who the next president is."

Mr. Ayala, who has said that he does not favor dictatorship, appeared careful to make clear that his faith was in the armed forces as a whole, not necessarily in General Pinochet.

Several businessmen said they favored the proposal advanced by the three other military commanders — most clearly by General Fernando Matthei, the air force commander — to name a civilian candidate. General Matthei reportedly hopes such a candidate could be selected with consensus support.

The military leaders are supposed to nominate the candidate unanimously 30 to 60 days before the vote. If the commanders cannot agree, the decision will be up to the broader National Security Council.

... In the interests of armed forces unity, however, it is expected that either General Pinochet will persuade the three commanders to support him or that they will win him over to another candidate.

The leader of an organization of small-business people who requested that his name not be used said he thought it was too soon for open elections in Chile. He also said that he would prefer "a civilian backed by the armed forces" in the plebiscite and that he would vote against General Pinochet.

PARIS: The Big Guns Stay Home

(Continued from Page 1)

Sissinghurst Castle, the white garden through dark glasses, the publishing trade is already hyping its autumn lists.

"Publishers and writers with books coming out in the fall are making the rounds of dinners with journalists in order to start the *famous bouche à l'oreille*, or word of mouth," Mr. Labro says. "The Parisian *bouche à l'oreille* begins in August."

Another event that begins in August is the annual series of price increases announced by the government in the hope of curbing consumers' moodiness in the sun. The process began on Aug. 1 when postal rates increased by 2.4 percent, followed two days later by a rise in the price of cigarettes.

If price increases are a national event, on the Paris scene each August it is traditional for a big film to be shot that requires chase scenes over empty streets. This month it is a Roman Polanski thriller starring Harrison Ford.

To service the new trendy August stay-at-home, many of the better Paris boutiques have stayed open in the hope of recouping losses on disastrous June and July sales figures. *Fevorite* media restaurants such as *Edgou* on the *Marbais* and *La Gendarmerie* on the *avenue de La Motte Picquet*, which also attracts political figures, remain open. Hotel restaurants and café terraces are favored by summer bachelors.

"Paris in August is a husband's city, a bachelor's city," Mr. Labro says, "which means that there are all those polls in newspapers and magazines about are the French faithful in August. And of course they are." Of course.

While what the French like to call *le happy few* remain in Paris, for



Patricio Aylwin
Chile Politician
Seeks Free Vote

MADRID — Patricio Aylwin, the newly elected leader of the main Chilean opposition party, the Christian Democrats, says he is seeking talks with his country's military rulers to bring about democratic elections.

In an interview published Saturday in the Spanish newspaper *El País*, Mr. Aylwin said he hoped to persuade the armed forces to drop plans for a plebiscite in which a candidate chosen by the military would succeed General Augusto Pinochet as president.

"Apparently, the armed forces don't want to negotiate at the moment," Mr. Aylwin said. "But this may change when we have five or six million voters registered in an electoral census and our campaign for free elections gains momentum."

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Luxembourg L.Fr.	11,500	6,300	3,400	L.Fr. 18.41	L.Fr. 6,790
Netherlands Fl.	650	360	198	Fl. 4.40	Fl. 440
Norway N.Kr.	1,800	990	540	N.Kr. 3.85	N.Kr. 1,110
Portugal Esc.	22,000	12,000	6,600	Esc. 64.56	Esc. 23,590
Spain Ptas.	29,000	16,000	8,800	Ptas. 55.33	Ptas. 20,140
Sweden S.Kr.	1,800	990	540	S.Kr. 3.05	S.Kr. 1,110
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Rest of Europe, North Africa, former French Africa, Middle East	430	230	125	Varies by country	
Rest of Africa, Gulf States, Asia	580	320	175	Varies by country	

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CHAD: Town Recaptured

(Continued from Page 1)

could be used to launch attacks against Chadian forces.

Military observers said Chad would probably not be able to retain total control of the region until the Libyan base, guarded by several thousand troops, was conquered.

In Tripoli, Libyan radio, monitored by the BBC, said Chadian forces had attacked the Acoum region, describing it as being inside Libyan territory, and it threatened retaliation for "this aggression."

The radio said the attack had been carried out with the help of "imperialist forces," a reference to the United States and in France, which has 1,200 troops in southern Chad with a squadron of jet fighters available to protect the southern capital.

The announcement of the Chadian victory, the first major military action since Chad gained control of most of northern Chad in late March, was greeted with demonstrations in Niamey.

ARMS: Soviet Puts Missile on Rail Cars, U.S. Aides Say

(Continued from Page 1)

mentally correct," and that the deployment should be regarded as a "sobering" development.

One official said that while some U.S. intelligence experts dispute the Helms assertion, "the preponderance of the intelligence community believes that the Soviet Union has begun deploying the rail-mobile SS-24."

The SSX-24, in development for more than a decade, can carry up to 10 independently targeted nuclear warheads, the Pentagon says. Its range of 6,200 miles (10,000 kilometers) enables it to reach all major U.S. military targets via polar trajectories.

Mr. Helms was seeking to discredit an expected move by Senate Democrats in require through legislation that the United States adhere to the 1979 SALT-2 treaty so long as the Soviet Union remains in compliance.

He said that he had obtained agreement from "key intelligence, defense and national security authorities" that some SSX-24s "should now be accountable" under the treaty's limit on land-based missiles with multiple warheads.

The United States ceased observing the SALT-2 treaty late in 1986 in response to alleged Soviet violations of other treaty provisions.

The Soviet Union previously deployed another mobile strategic nuclear missile known as the SS-25, designed to be launched from trucks that roam the Soviet countryside. The SS-25 is a single-warhead missile.

The United States has just begun studying deployment of its 10-warhead MX missiles on railroad cars, and is still developing a single-warhead, mobile counterpart to the Soviet SS-25.

The Reagan administration's Commission on Strategic Forces, chaired by Brent Scowcroft, a former national security adviser, urged that both superpowers shift to mobile, relatively untargetable, land-based missiles to lessen the attraction of striking first when conflict seems imminent.

But the Reagan administration has argued that Soviet compliance with limitations on mobile missiles

would be so difficult to verify that none should be permitted in the treaty constraining strategic nuclear arms that is presently under negotiation in Geneva.

Several U.S. officials challenged Mr. Helms's allegation of a serious new Soviet violation of the SALT-2 treaty. They asserted that the Russians had dismantled a sufficient number of SS-17 missiles to make up for recent deployments of the SS-24s and a new missile-carrying Typhoon submarine.

The officials said that Mr. Helms's assertions were technically correct, however, because the Russians had not yet blown up the old SS-17 silos as required by the treaty, even though the missiles had been withdrawn.

113 Die in Floods in India

United Press International

NEW DELHI — Freak monsoon floods have killed at least 113 people across India while droughts in other areas caused by unusual weather patterns have ruined crops, officials said Saturday.

INTERNATIONAL CLASSIFIED

(Continued From Back Page)

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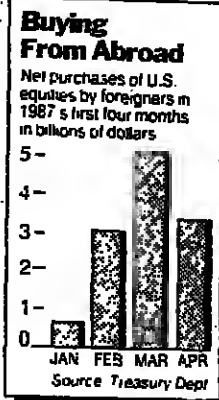
PERSONAL INVESTING

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New Buyers In an Old Rally

AUGUST has become a month of reflection for Wall Street in recent years. With the bull market in U.S. stocks five years old this month, the time seems unusually appropriate for asking the agonizing question of how much longer the good times will roll.

The debate has a familiar ring to it. Media pundits worry that stock prices are running far ahead of economic reality. Brokers issue reams of upbeat reports to reassure doubters. And some investors dabble in gold, just in case.



The concern is understandable. Nothing lasts forever. And this particular rally has served investors well. In the past 12 months alone, it has weathered growing indications of a string economy, inflationary pressures, a weakening currency and uncertain political prospects associated with an ongoing administration that has been wounded by scandal.

Still, the Dow Jones industrial average has climbed more than 30 percent since the start of the year. And the outlook remains favorable. As investment strategists celebrate the bull market's traditional August anniversary, many believe most of the good times are behind us, but are far from over.

Strong corporate earnings, experts say, will sustain the rally. The dollar's decline has not only improved the export capabilities of U.S. manufacturers, but also forced American industry to go through a painful restructuring. Now, that the dollar's fall has slowed, so the argument goes, U.S. companies are about to reap the benefits of a newfound competitiveness.

EQUALLY important, however, is the willingness of foreign investors to accept this reasoning. Since Jan. 1, their presence has become an increasingly important element in supporting the stock market.

Even though the degree of foreign influence is nowhere near the dominance it achieved in Europe in 1985 when Continental bourses were propelled to record levels and then abandoned, a growing number of American analysts believe their participation in the market could make the difference in the months to come.

"It's critical in sustaining the rally," says Steven Einhorn, chief investment strategist at Goldman, Sachs & Co.

Adds John Conlon, head of equity research and trading in New York for Nikko Securities, one of the big four Japanese brokerage firms: "There's no doubt that it's a new part in the equation."

Foreign investors turned lukewarm to U.S. stocks toward the end of last year — net purchases totaled \$400 million in the final quarter, a paltry sum compared to \$4.7 billion in the previous three months, according to the U.S. Treasury Department.

Opinions changed in 1987, however. Prospects of better earnings, more reasonable price-earnings multiples and a general feeling that the dollar's long decline has just about run its course apparently rekindled faith in the U.S. market.

Net purchases of stocks jumped to a record \$9.8 billion in the first quarter. In fact, foreigners were bigger investors than U.S. pension funds, traditionally the market's mainstay.

By far, Japan has been the biggest source of funds, accounting for more than a third of the first quarter total. Japanese investors have grown wary of their huge holdings in U.S. Treasury bonds and have turned increasingly to equities, a process that shows no signs of slowing.

YET the Japanese, after some concern about the dollar's shakiness in April, poured another \$2 billion to \$3 billion into U.S. stocks in June, according to preliminary data compiled by the Ministry of Finance in Tokyo. Moreover, Nikko's Mr. Conlon says he recently has noticed more cash-rich Japanese institutions entering the U.S. market.

Of course, if the dollar resumes a downward spiral, the Japanese will have second thoughts. But a more immediate concern may be the health of the Tokyo Stock Exchange. The market is already displaying signs of fatigue, and a number of analysts fear that a sharp correction could so unnervingly Japanese institutions that they would quickly try to raise cash by selling stocks in New York, as well as Tokyo, a move that could trigger the end.

"If the Tokyo market were to crack open," says Goldman's Mr. Einhorn, "the effect in New York could only be bad."

John Meehan

UPDATE

Gold Strategy

FINDING value in gold stocks is getting tough. Earlier in the year, investors bought up shares in gold-mining companies in the United States, Canada, Australia and South Africa as a hedge against the widely perceived risks in the stock and bond markets (Personal Investing, April 13). Such popularity drove prices beyond sensible levels, prompting some portfolio strategists to recommend gold coins instead.

Wine Investors Cautiously Await the Harvest

A modest crop of quality would help restore interest in a shaky market

By Jacques Nelher

IT is still two months before the lush vineyards at Chateau Margaux will yield the first drops of wine for vintage 1987, but Paul Pontallier, the 31-year-old manager of the estate, already can promise at least one thing: There will be less of it than last year.

The heavy and constant rains of June, he explains, pointing to clusters of unripened, green merlot grapes, affected the flowering of the vines. The result was coulure, a malady whereby unpollinated grapes do not develop and simply fall off the vine.

Still, it could have been worse. "We were quite afraid in June that the rains would cause millerandage," says Mr. Pontallier, who holds a doctorate in oenology, or wine making. He is referring to another condition in which the grapes still develop, but without seeds and therefore do not mature correctly. "We were pleasantly surprised."

About 15 miles (24 kilometers) down the road in the prime Medoc region, Philippe Cottin, who has run Chateau Mouton-Rothschild's wine-making operation for the past 30 years, concurs with his young competitor, although he is more philosophical.

"In 1985 and 1986, we had too large a vintage," Mr. Cottin says, "if we had another one in 1987, the vines might have suffered. So God made us lose some quantity. We have to accept Mother Nature."

Accepting Mother Nature will be difficult for wine connoisseurs. Some experts believe this year's wine production could be between 20 percent and 30 percent smaller than last year's. Prices are bound to rise. But it is perhaps the cheeriest news that investors in about 25 investment-grade Bordeaux wines have had in long time.

For the past few years, the wine market has been reeling from a combination of an overabundance of very good wine and a weakening dollar that has all but dried up American interest in wine investments. Decanter magazine's index of auction prices for 60 Bordeaux wines climbed only 11 percent last year compared with 33 percent and 23 percent in 1985 and 1984, respectively. So far this year, the index has risen less than 5 percent.

Most of the chateaux producing investment-grade wines (a few months ago were forced to roll back prices between 10 percent and 15 percent on their 1986 vintage, even though some believe that vintage may be among the best of the decade.

For Mouton-Rothschild and Margaux, both classified as premier grand cru, or first growths, their 10 percent price reductions to the negociant or broker, meant a drop to 180 francs (\$30) a bottle, from 200 francs last year on the 1985 vintage.

"In dollar terms, the 10 percent reduction will represent an increase, but for such a great vintage, that was a lot," says Corinne Mentzelopoulos-Petit, who manages the business affairs of Chateau Margaux, which her family bought 10 years ago. She said Margaux and the other first growths did not need to cut prices, but did so in consideration of the American

Continued On Page 8



BORDEAUX:

Paul Pontallier, estate manager at Chateau Margaux, inspects clusters of merlot grapes that will be pressed, fermented and blended.

California Comes Alive

By Alex Barnum

YEARS of hard work, determined marketing and a lot of inventive talent in the vineyards went into convincing consumers of the quality of California wine. But in the end, it took the legislature in Sacramento to transform it into an investment opportunity.

Up until last year, the Alcoholic Beverage Control Act, a relic of Prohibition, virtually outlawed a secondary market in California wine by making it illegal for individual collectors to resell bottles of wine. In fact, only when collectors died could auction houses and wine merchants dispose of collections.

California lawmakers, under pressure from the wine industry and excited by the prospect of new tax revenue, decided to ease the restrictions in 1986. Now, individuals can sell white or sparkling wines that are at least five years old and red wines that are 10 years or older. The age minimums exist so that consumers do not compete with the wholesale and retail business.

The revised law has already transformed avid collectors into investors, while creating a brisk business for vintage wine retailers and auction houses. The law specifies that wine can only be resold to licensed brokers, who are more than eager to earn commissions. This year, Butterfield & Butterfield Auctioneers in San Francisco will hold six major wine auctions, compared with half that many a few years ago.

"People are cashing in a lot of their older wines," says Stephen Gilbertson, general manager of Draper & Esquin Wine Merchants in San Francisco. As many as 20 collectors a week have flooded his office with lists of their collections and have asked the company to market them.

Still, investors should keep in mind that the market, while improving, remains narrow when compared with that for Bordeaux wines. Although California wines have gained acceptability

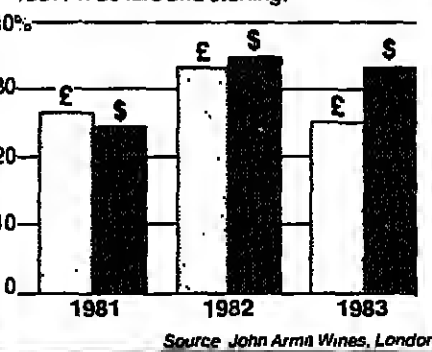
in Europe since they were introduced there in the mid-1970s, foreign investors and collectors still regard them as little more than a curiosity, says Robert Parker, editor of The Wine Advocate, a Parkton, Maryland, newsletter that tracks the wine industry. "With the English, the Americans are sort of the Johnny-come-latelies," and expensive ones at that, Mr. Parker says. But in France, he adds, "the competition is so enormous that they can't do well."

Indeed, California wines even have trouble infilling

Continued On Page 8

Three Vintage Years

Annualized returns on 100 cases of classed Bordeaux wines as of July 1987, in dollars and sterling.



NAPA VALLEY: Bernard L. Rhodes, proprietor of Heitz vineyards's Bella Oaks label, checks a wine's clarity and color.

FUNDS

Two Ways to Play the China Card

By Patrick L. Smith

FOR centuries, adventurous foreigners have viewed China as a land of vast commercial opportunity. Translating that view into an investment strategy, however, is not much easier now than in the past. A weak economic infrastructure, a confusing bureaucracy, the nagging issue of political succession and a vulnerable modernization policy promoted by Deng Xiaoping are just a few of the uncertainties.

No one is more aware of the difficulties of playing the China card than Jonathan L. Compton, managing director in Hong Kong for Baring International Investment Management Ltd., and David Harding, a director of Thornton Management (Asia) Ltd. Both men guide investment vehicles whose primary goal is to find ways to

'Along with Brazil, China is possibly the last home of the real cowboys.'

—David Harding

cash in on China's ambitious development plans.

"What excited us was the very significant shift China has made in its approach to managing enterprises," says Mr. Compton, referring to the rise of privately owned businesses and increased autonomy for state-owned enterprises. "And we still believe this is the most important development in Asia right now."

Reflecting such bullishness, Mr. Compton set

up the China & Eastern Investment Co. in late 1985. Listed in London and, since last January, in Hong Kong, the investment trust enables investors to participate in direct equity positions in mainland enterprises.

So far, Mr. Compton has bought into seven such ventures, ranging from a foie gras farm in Guangdong Province to a granite quarry, a trading company, a film production unit and a safe-manufacturing concern.

It is not, Mr. Compton acknowledges, an approach recommended for the overly cautious. In his first few months of operation, hundreds of would-be partners trooped through his office with entrepreneurial proposals that can only be described as oddball.

These ranged from hotel investments and massive mining projects, Mr. Compton says, to some "very weird import-export ideas." One would-be entrepreneur offered China & Eastern exclusive rights to the mainland's copper exports, for instance, in exchange for a few million dollars of investment in a proposed smelting operation.

"I've learned that along with Brazil, China is possibly the last home of the real cowboys," the 31-year-old fund manager muses.

Mr. Harding has taken a somewhat different approach. The Hong Kong and China Gateway Fund, launched in March 1985, is a unit trust intended to focus on foreign companies positioned to benefit from China's economic development either through trade or participation in mainland projects.

"There's no such thing as a direct play on China," Mr. Harding, 26, says. "Even if you could invest directly, it's far too early to do so."

The Thornton and Baring strategies are not, however, miles apart. For one thing, Mr. Harding has just invested about 3 percent of the Gateway fund in Rockhaven, China & Eastern's duck and goose pâté farm, as part of a refinancing that Mr. Compton completed in June.

For another, both operations took roughly the same approach in their earlier days. Reflecting the consumer boom that swept the mainland several years ago, Mr. Compton and Mr. Harding

Continued On Page 9

The Continuing Boom in New Issues. Page 10

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Wine: A Glut and a Weak Dollar Have Eroded Returns

A new California law eases the rules on reselling wine

Continued From Page 7

trating markets in the United States. Major cities along the East Coast, like New York, are actually larger consumers of French wines, Mr. Parker says. But this phenomenon is cyclical and fluctuates with the changing exchange rates. Currently, "the market is definitely soft for French wines" and American collectors and investors are staying closer to home, he says.

Although brokers are constantly on the lookout for great vintages, only a handful of California vineyards have consistently produced widely recognized, investment-grade wine. The classic success story is the 1951 Beaulieu Vineyards Georges de Latour Private Reserve. The wine sold at a Butterfield auction in June for \$935 a bottle, the most ever paid at the auction house for a bottle of California wine.

"It may be the best California wine ever made," says Dr. B.L. Rhodes, proprietor of Heitz's Bella Oaks label and a well-known collector, who recalls buying the wine at \$15 a case in the 1950s. Vintages in 1951 and 1958, he notes, were exceptional for Beaulieu Vineyards, Inglenook, Louis Martini and Charles Krug, "the four mainstays of the California market."

The highest price anyone can recall for a California wine was \$2,100, paid in 1983 for a bottle of 1936 Beaulieu Vineyards Private Reserve. By contrast, the record for a French wine was \$148,000, paid by Forbes magazine for a

bottle of 1787 Château Lafite believed to have been ordered by Thomas Jefferson.

Except for a few Chardonnays from vineyards such as Sonoma-Cutter and Stony Hill, wines made from Cabernet Sauvignon, the same grape used in Bordeaux, are the only ones considered worthy of investment.

A study of 300 Cabernets from 26 premium California wineries by George Schofield, a wine industry consultant, found the overall average annual rate of return on wines made between 1968 and 1981 was 19.3 percent. While prices for wines up to seven years old performed below average, prices for wines more than seven years old rose substantially faster.

Still, collectors and investors have been taking greater interest in younger wines lately owing that the revised law has uncorked a new supply of older wines and softened their prices.

Mr. Schofield has launched one of California's most innovative wine investment programs. This year, he plans to buy 1983 Cabernet as it comes out of the casks at eight selected California vineyards and age them until 1993 in a humidity-controlled warehouse.

To this "wine aging program," Mr. Schofield offers investors 80-case units — 10 cases of each of the eight wines — at \$11,000 a piece. When they mature, investors can take delivery, sell the wine back to Mr. Schofield at an agreed-upon price or have him broker the wine elsewhere.

"I view this as a mutual fund of



Warren Winiarski, owner of Stag's Leap Vineyard, among the casks.

wines," Mr. Schofield explains. The selection includes some old standards like Robert Mondavi and Beaulieu Vineyards and some quality upstarts like Clos du Val and Chappellet Vineyards.

Meanwhile, Robert Mondavi last March became the first large vineyard to start a more traditional wine futures program by offering 10 percent of its 1985 and 1986 Napa Valley Cabernet Sauvignon Private Reserve to investors before it is bottled.

Some wine experts have taken a dim view of some of the recent programs, especially when they involve big, well-known vineyards. Many of these wines, they caution, will be widely available at release

time. Mr. Parker of the Wine Advocate goes even further. None of the futures programs, he says, are attractive enough for investors because of the relatively narrow market for California wine. "There is a glut of fine wines in the market," he says. "You just don't have enough demand for these wines" to justify investing money in a futures program.

For some, futures contracts offered by California's small vineyards are more alluring. The risk, of course, is greater. Like buying stock in a start-up company, an investor can never be sure that a new vineyard will be around next year. And the industry is still finding out how well these wines age.

The number of wineries in Napa Valley alone has blossomed to 155 this year from 65 only seven years ago, the Napa Valley Vintners Association says. More than three quarters of them make a Cabernet and many of those Cabernets, according to wine collectors, are good quality and in extremely short supply.

Stag's Leap Vineyard, founded in 1971 by Warren Winiarski, offered a futures program to London investors in 1985. Other small vineyards have made similar offerings.

Draper & Esquin's Mr. Gilbertson also recommends lesser known vineyards, such as Laurel Glenn and Spottswoode.

Bordeaux growers even cut prices

Continued From Page 7

market and as "a gesture that we were willing to share lesser margins with the négociant."

Slightly older wines also are feeling the effects of the unstable market at the auction block. Michael Broadbent, wine division manager at Christie's in London, recalls that two years ago a 12-bottle case of 1982 Lafite sold from around £520 (£832) to £700. In recent auctions it has fetched between £500 and £550.

Cases of 1982 Margaux have been averaging from £390 to £420, significantly lower than in 1985 when a case could go for between £560 and £660.

In a way, Bordeaux has become a victim of its own success.

"We've had a series of excellent and plentiful vintages, with only two off years out of the last 10," says Mr. Cottin of Mouton-Rothschild. "That's exceptional."

Moreover, an effort by châteaux owners to maintain price growth in defiance of the mounting oversupply situation exacerbated the market's problems. Many châteaux, mostly producers of the lower or middle ranges of the classified Bordeaux wines, engaged in a game of price lowering between 1983 and 1985. Négociants compounded the problem in 1985 by deciding to increase their margins, resulting in still higher prices.

Then came the dollar's plunge. Americans, who consume perhaps a third of Bordeaux's output and have been an increasingly powerful force in the wine market, began turning away from wine investments as the dollar dropped from around 10 francs in early 1985 to about 6.25 francs at present.

Dennis Overstreet, owner of the Wine Merchant in Beverly Hills, California, says there has been little interest this summer in 1986 Bordeaux futures contracts for wine to be delivered two years later. "It's all no hum," Mr. Overstreet says. "Last year we got a lot of phone calls before the futures were even offered. I haven't seen that enthusiasm this time around."

Even 15 percent price reductions from Bordeaux have failed to rekindle interest largely because the dollar's decline in the past year has wiped out any benefits.

At the auction house, it is much the same story, according to Mr. Broadbent of Christie's. "Many fewer buyers are American than ever before," he says. For example, at an auction of Bordeaux wines earlier this year, only 2 percent of the buyers were American.

Staying Abreast of the Market

There are scores of publications on wine, but here are a few of the better known sources of information.

The Wine Advocate, P.O. Box 331, Parkton, Maryland 21111. This is the newsletter of Robert Parker, probably the most influential commentator on wine and the author of a recent book on Bordeaux. The newsletter is published six times a year and rates as many as a few hundred wines in every issue. U.S. subscriptions are \$28 a year, and foreign airmail subscriptions are \$50.

The Wine Spectator, 400 East 51st Street, New York 10022. This colorful tabloid, which is published twice a month, reviews wines and features interviews with industry personalities. U.S. subscriptions are \$30 a year. A six-month trial subscription cost \$11.95. Foreign subscriptions are \$75.

Decanter, 2-10 St. Johns Road, London SW11. This established British monthly reviews wines and spirits. It also features recipes and interviews with connoisseurs. Subscriptions are £24 in the United Kingdom, £33 in Europe. An U.S. airmail subscription is £60.

The Wine Journal, 4157 Banyon, Seal Beach, California 90740. This monthly newsletter features regular reports on the status of older vintages and reviews of wines before they are bottled. A U.S. subscription is \$48 a year, and foreign airmail subscriptions are \$58.

Two years ago, he says, Americans comprised more than a third of the buyers.

And despite the relative stability of the U.S. currency in recent weeks, experts still advise dollar-based investors to remain wary. "I understand the Americans' feelings," says John Armit, president of John Armit Wines Investments Ltd. in London. "I'd go very easy if I was dollar-based."

As for investors based in other currencies, Mr. Armit believes 1986 wine from certain châteaux could show nice returns four to six years from now, despite the market's current instability.

His buy list includes Mouton-Rothschild, Margaux, Haut-Brion among the first growths; Léoville Barton, Fichon Lalande and Cos d'Estournel among the second growths; third-growth La Lagune; Ausone of St. Emilion; and La Fleur, Certan-de-May and Vieux Chateau Certan, of the Pomerol region.

The list is largely in accordance with the preview ratings given the 1986 vintage by Robert Parker, a leading wine expert, in his newsletter, *The Wine Advocate*. Mr. Parker also gives high ratings to Pétrus, L'Arrosée, Beychevelle, Canon, Chambert Marbuzet, Cheval Blanc, Ducru-Beaucaillou, L'Eglise Clinet, Figeac, Grand-Larose, D'Issac, Léoville-Las-Cases, Lynch-Bages, La Mission-Haut-Brion, Montrose, Poujeaux, Sociando Mallet and Talbot.

Still, most wine market experts acknowledge that the boom days are over for investment-grade wines in the foreseeable future, at least until the market can absorb all the good wine currently in the pipeline.

"The best scenario is that the

1986s will be sluggish and the 1987s will flatten out," says Mr. Broadbent of Christie's.

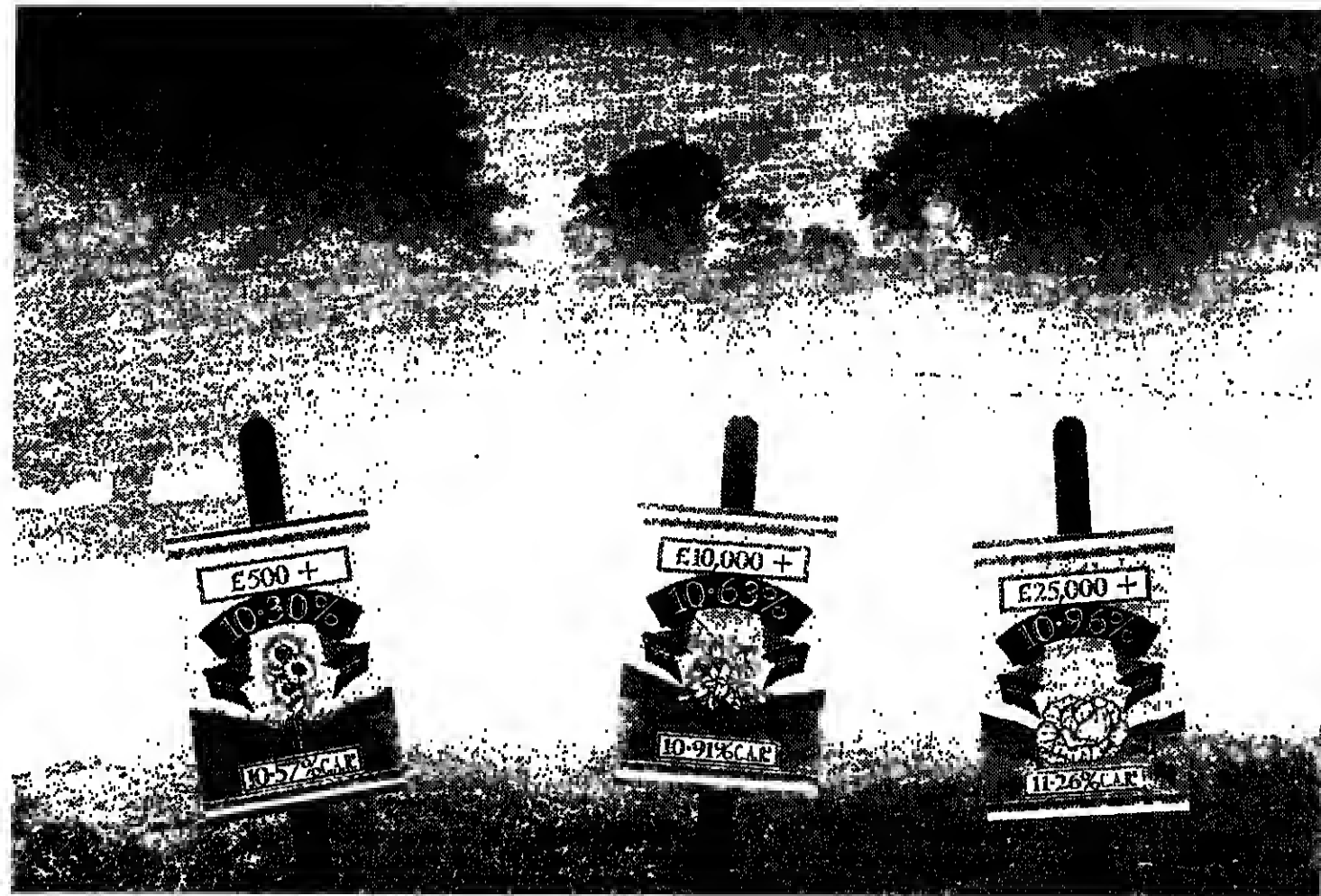
Not surprisingly, in the absence of a sharp resurgence in inflation, many growers and wine investors are counting on a diminished 1987 harvest to stabilize the market. If the wine yield is smaller, but of good quality, the market for 1987 vintages will be strong. If quality is lacking, however, demand for previous vintages will likely improve.

If the harvest proves bigger than expected, wine prices could suffer. In fact, a few experts admit to some concern over the possibility of a collapse in the market, as occurred in the early 1970s after a wave of panic-buying from investors trying to beat high inflation. The large-scale dumping that followed pushed prices down to bargain levels.

"The cracks are already in the egg," says Mr. Overstreet of The Wine Merchant. "If the dollar gets weaker and prices go up a little more, you'll see that market stagger and come apart."

Mr. Broadbent sees another potential problem if wholesalers are forced to sell large stocks of 1985 or even 1983 vintage. "If the banks who lent money to these people see the value of their collateral going down, they may panic and call in those loans. There could be a stampede to sell wine and the bottom would fall out," he said.

But Mr. Armit is not buying either scenario. "The top 21 wines account for only 400,000 cases. There is more interest from Japan. In top quality wines, while Switzerland and Germany remain strong markets, I don't believe there aren't at any time 400,000 people who wouldn't want to take at least one case."



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For Investors, Timing Is Key

THE timing of any investment is crucial and no more so than in the wine market. For the best returns, investors should enter the market at the earliest possible stage by purchasing wine futures from their local merchant.

A wine future is a contract that covers the purchase of a certain quantity of wine for future delivery, usually within one or two years. Merchants begin offering futures on wine that is still in the barrel — *en primeur* — in the spring after the châteaux have set their prices.

For example, investors who bought futures on 1985 Château Margaux when it went on sale in the spring of 1986 will be able to take delivery of the wine to be bottled later this fall or early in 1988. Of course, many others will never take delivery, having sold their contracts before the wine ever leaves the chateau.

The risk in futures is that the investor must buy before most professionals have had a chance to evaluate the vintage.

While significant appreciation does not usually begin until the wine comes to auction, about four years later, there are instances,

such as with the 1982 vintage, where many futures contract buyers can double their money by the time their wine is delivered.

Although there are emerging secondary markets for other French wines, such as red and white Burgundy and Champagne, Bordeaux has traditionally been considered the best available wine for investment because of its classification system, worldwide popularity and the fact that it improves with age.

Not all Bordeaux is investment-grade, however. Seasoned investors, as well as connoisseurs, limit purchases to relatively few of the 7,000 châteaux in the Bordeaux region. Traditionally, "first growth" wines from the top five—Lafite, Latour, Margaux, Mouton-Rothschild and Haut-Brion—have ensured high quality and good returns.

Some experts favor smaller châteaux that fall into the "second growth" category which produce substantially less than the 20,000 to 30,000 cases that big châteaux produce each year.

Wine investing takes lots of cash and patience. John Armit of John Armit Investments Ltd. in London seeks clients with at least \$35,000 and preferably more than

\$100,000 to spend. In any case, he says, that amount should never be borrowed and it should not represent more than 5 percent or 10 percent of a total investment portfolio. Most experts advise investors to buy between five and 10 cases as a minimum.

Moreover, the investor should be prepared to wait at least four to six years to maximize appreciation of the investment. "Wine is not a liquid investment," he says. "It takes time to sell in order to get the right price."

Transaction costs can be steep. Merchants such as Mr. Armit charge front-end commissions, ranging from 15 percent to 25 percent. And for investors not planning to drink their portfolio, there are sales costs to factor in.

Christie's, for example, charges the individual seller 10 percent of the hammer price as its commission, as well as 10 percent from the buyer.

Moreover, there are shipping and storage costs. Mr. Armit says his clients pay about £1 (£1.60) a case for the wine to be shipped from Bordeaux to Britain and £3.50 a case each year for warehousing and insurance.

Jacques Neher

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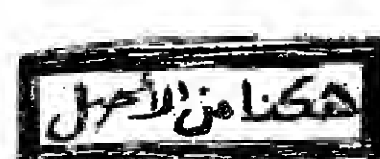
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BOURSES

Conflicting Signals for New Issues

By Phil Roosevelt

THE Xerart Corp. offered its shares to the public for the first time last April. The company had no sales, no earnings and still needed a complete market study. "We are very much a concept company," acknowledges Frank Pearson, president of the Markham, Ontario-based company.

But substance often takes a back seat to a good idea, especially where the stock market is concerned. On the U.S. over-the-counter market, the price of Xerart's stock more than doubled by June 30 to \$7.50, making it the top-performing initial public offering of 1987's first half.

So what is the concept? Fine art for everyone. Xerart (pronounced zee-art) produces detailed replicas of famous oil paintings, complete with raised brush strokes and oil-like surfaces, and expects to sell them to restaurants, hotels and the mass market for a retail price of between \$450 and \$900 each.

"You're bringing paintings out of museums and into people's living rooms," says Kenneth Gerbino, a Beverly Hills investment adviser who hailed Xerart as "Stock of the Month" in a June edition of his Investment Letter. "I usually don't write about companies with no sales or earnings, but I just love this one."

The market for initial public offerings has long attracted investors seeking winning concepts or undiscovered value, and recent times are no exception. In the first half of 1987, investors gobbled up about \$14.8 billion of stock in 308 IPOs in the United States, compared to \$8.8 billion in 283 IPOs during the same period a year earlier.

Some of the biggest were closed-end funds, including the biggest ever, the Nuveen Municipal Value Fund which raised \$1.5 billion in June on the New York Stock Exchange.

Whether the year-end tally will top last year's record \$22.4 billion is still a subject of debate among IPO specialists. The chief uncertainty, they say, is the outlook for Wall Street's bull market, which celebrates its fifth anniversary this month. While IPOs typically do well during rallies when investors' speculative appetites are whetted, they can fall fast during broad retreats, as last seen in 1983.

Norman Fosback, editor of the Fort Lauderdale-based newsletter New Issues, espouses the bullish case for IPOs, predicting that the broad market will climb 15 percent to 20 percent over the next six months. "I think this is an ideal time for individuals to look at IPOs," he says. "Individual interest will beat up on the bull market continues."

But Kevin Kimberlin, a vice president with the securities firm D.H. Blair in New York, is less sanguine. He predicts "a 400- to 500-point correction" in the Dow Jones industrial average, which could dry up investor interest, discourage companies from offering stock and clobber recently issued IPOs. "I think it's a time for extreme caution in IPOs," he says.

Indeed, there are some worrisome indications that the market's demand for new issues is slowing. Only 52 percent of the IPOs were trading above their offering price by June 30, down from 66 percent for the first half of 1986, says Susan Gallant, editor of Going Public: The IPO Reporter, a New York-based newsletter. Only 43 percent of the new crop outperformed the broad Standard & Poor's 500-stock index.

As a result, market participants say, investor enthusiasm for IPOs has dampened in recent weeks. "Many IPOs are getting a cool reception," says Thomas Weisel, a senior partner at San Francisco-based Montgomery Securities. "In order to get the deals done, underwriters are having to price the deals at substantial discounts."

While price reductions are a bane to companies, they can, of course, be a boon to investors with nerves for the fickle IPO market and time to shop around. "There are probably some good deals out there at prices significantly lower than what they might have been a few months ago," says Ms. Gallant.

THE FIRST HALF'S HOTTEST IPOs

The five best-performing initial public offerings, in the first half of 1987.

COMPANY	BUSINESS	ISSUE DATE	OPENING PRICE	PRICE JUNE 30
Xerart	Replicates oil painting	April 24	\$3.00	\$7.50
British Airways	Airline	Feb. 11	\$5.92	\$23.25
AMRE	Exterior home products	Feb. 26	\$16.00	\$31.00
Jetborne International	Aircraft support	May 20	\$3.75	\$6.68
Hospital Newspapers Group	Publishing	March 10	\$5.00	\$8.63

Certainly, there are plenty of choices for investors who want to take a crack at the growth potential of IPOs. While high-tech issues often are the most prominent because of their dazzling promises, there is a lot more interest these days in "basic salt-of-the-earth companies," says Mr. Kimberlin.

For example, he cites a company that his firm helped bring public this spring, Diversco of Spartanburg, North Carolina. The company, Mr. Kimberlin says, "leases" labor forces to major corporations in the southeastern part of the United States, producing substantial cost savings to clients. Offered at \$6 a share, it recently traded at around \$8.

Mr. Fosback of New Issues also counts some basic companies among his favorite IPOs, such as Timberland of Hampton, New Hampshire, a rapidly growing manufacturer of rugged footwear. That stock hit the market in June at \$14 and was recently trading at about \$15.

FINANCIAL services companies have also been well represented in this year's offering, though not all have fared well. The most prominent, American Express Co.'s offering of its Shearson Lehman Brothers brokerage subsidiary, came to market in May at the low end of the expected price range, \$35. The offering still proceeded slowly and recently the stock was trading at around \$28.

Of course, there may still be some good opportunities in technology-related issues. The most sensational new offering of the year, in fact, has been Aldus Corp., a computer software company whose PageMaker product plays a key role in the explosive new field of desktop publishing. Responding to investor demand, the stock's underwriters raised the offering price to \$20, from a planned range of \$14 to \$16, but the stock still jumped to \$35.75 just two hours after trading began on June 16. It is now trading at about \$30 a share.

This kind of phenomenon warms the hearts of so-called "flippers," professional traders who buy and sell IPOs during the first few days of trading. Often, the activity of flippers will drive up an IPO price by 5 percent or 10 percent within three days. But this kind of activity can be treacherous for the individual investor and, as a result, most experts counsel individuals to view IPOs as long-term investments.

"We think the best approach is to look for reasonably priced issues and hold them for a few years," says Mr. Fosback, adding that for most growing companies, a price-earnings ratio of about 20 is appropriate.

Many IPO companies, unlike Xerart, show established financial track records from their years as private entities. But even these companies rarely provide any information beyond a single prospectus; the investor does not have the benefit of comparing previous company documents.

"There's no way of seeing how well a company plans their business," says Alfred Kugel, president of Chicago-based Stein Roe Farnham's Discovery Fund of emerging growth companies. He recommends that investors with a bent for IPOs consider diversifying into as many as 10 issues in a range of industries.

In June, Mr. Klugel bought shares in ECAD, a leader in computer-aided design. The company went public June 10 at \$8.50, and then slipped below \$7.50. It was trading above \$8 last week. "It's been a bad market for small technology issues. But we think

it will improve." In fact, he believes ECAD's earnings will rise to 50 cents a share in 1988 from 37 cents this year.

He also likes Resource Engineering, a hazardous-waste management consultant that went public June 5 at \$11.50. It is now trading around \$15.

Aside from the investor's willingness to assume high risk, another basic consideration is the willingness of investors to hold small stocks during a long-term rally that has largely favored blue chips. "If you're going to invest in these stocks long term, you have to ask yourself, 'When are they going to come back in favor?'" says Mr. Klugel.

In addition, many experts urge potential investors in an IPO to examine the performance of other IPOs executed by the underwriter over the past 12 months or longer. A trend may emerge suggesting that the underwriter repeatedly overprices issues, which can boost the client companies' market value and the underwriter's fees but reduce investor's profit potential.

Ominously, perhaps, no IPO specialists queried recently were aware of any major IPOs on tap for later this summer. However, many expect AIDS-related stocks to emerge as a leading theme.

Chemistry in Frankfurt

By Gail Schares

THEY will never be glamour stocks, but a number of analysts believe that the big three West German chemical stocks are as alluring now as they will ever be.

Analysts and fund managers expect Bayer, BASF and Hoechst to outperform the market during the next 12 months by as much as 15 percent to 20 percent, despite a run-up in their prices since the beginning of the year.

"I put the chemical sector at the top end of the attractive list for the German market at the moment, especially if the dollar doesn't fall out of bed," says Nigel Ledebor, investment manager at GT Fund Management in London.

David Elsmore, an analyst at Phillips & Drew in London, agrees: "The chemical stocks will be one of the strongest, if not the best performing sector in Germany during the next six to 12 months."

Of course, not everyone is convinced that chemical stocks will improve so dramatically. Some fund managers who bought chemical stocks during the past eight to 12 weeks have now left the market. But bargain prices continue to focus an unusual measure of attention on the traditionally staid chemical sector.

While the dollar's steep decline on currency markets took its toll on many export-oriented industries, the impact was severe in the chemical sector. During the past year, a strengthening Deutsche mark virtually wiped out export profitability. Moreover, the disenchantment with German shares in general in the first half proved especially punishing to the chemical sector.

Nowadays, chemical stocks are priced at 8 to 9.5 times estimated 1987 earnings, well below the German market average of between 14 and 15, and less than half that of international competitors, such as Dow Chemical and Du Pont. "They've reached a point where they're just too cheap," says Mark Quilliam, chemical stock analyst with Salomon Brothers in London.

The dollar's recent stability could change all that. And already there is talk of improved export income. "Everyone knows the strong Deutsche mark is the principle negative influence on these companies right now. If the dollar reaches a plateau, the turnaround in investor sentiment could be quite rapid," Mr. Quilliam says.

The stable outlook for the German economy is another encouraging factor, with some analysts forecasting a growth rate of between 1.7 percent and 2 percent this year.

In the meantime, analysts are giving German chemical companies high marks for improved corporate strategies and balance sheets. After being battered by an industrywide recession in the early 1980s, Bayer, BASF and Hoechst have emerged

from a painful restructuring stronger and well-positioned for several years of steady growth, analysts say.

In general, the West German chemical giants have moved away from commodity and raw-material products, adding specialty products with wider profit margins. This diversification should make earnings less vulnerable to downturns in the economic cycle.

At the same time, Bayer, Hoechst and BASF have slashed financial debt and negative interest payments and turned in better-than-expected first-quarter performances for 1987. Meanwhile, demand for chemical products has defied the normal summer lull and remained strong, while capacity utilization is holding steady at a healthy 85 percent.

"The quality of earnings is better now," says Madeleine Hall, manager of the European fund at Schroders Fund Management in London. "They will be cyclical companies, but they are more protected."

ALTHOUGH the stock prices of Bayer, BASF and Hoechst generally move in tandem, most analysts and fund managers recommend Bayer as their top choice while citing its well-developed consumer product mix (over 30 percent) and strong pharmaceutical division. Bayer also is the least expensive of the big three, at about 8.4 times estimated 1987 earnings. Hoechst and BASF are both selling for about 9.5 times earnings.

Moreover, the introduction of three new cardiovascular drugs and an expanded sales force are expected to boost sales beginning in 1988. The new drugs alone are expected to contribute about 20 percent to total group profits by 1989.

The price of Bayer, which traded at a low of 265 DM in January, has risen more than 35 percent, thanks in part to the German market's recent strength. Pretax profits in the first quarter were up 3.2 percent at Bayer, but 1987 earnings are expected to dip slightly to 40 to 42 marks per share.

Analysts were divided on ranking Hoechst and BASF. Hoechst's future earnings are expected to benefit from the purchase earlier this year of Celanese, a diversified U.S. chemical firm specializing in fibers.

Hoechst's stock hit a low of 230 DM a share in January, but has made a strong advance since then. Pretax profits for the first quarter were up 5.7 percent, and analysts say 1987 per-share earnings will range from 29 to 31 DM.

BASF is favored as a short-term play. The company is expected to profit from rising oil prices, analysts say. But its heavier emphasis on raw material, bulk chemical and petrochemical products make it a riskier long-term investment.

BASF's stock hit a low of 240 DM at the end of January, but has made substantial gains since then. Pretax profits in the first quarter were up 3.2 percent, and analysts estimate 1987 earnings will be 28 to 34 DM a share.

FUNDS

How to Play the China Card

Continued From Page 7

begin by targeting Japanese companies — JVC, Hitachi, Sony and others — that could effectively extend mature product cycles by selling into China or relocating capital equipment there.

The other principal components for both China & Eastern and the Gateway fund were Hong Kong companies with strong prospects for the north. Mr. Compton notes Hopewell Holdings, a property developer, Burwill International, a commodities trader, China Light & Power, which sells about 15 percent of its output to the mainland, and Jardine Matheson, the diversified British "trading."

"As with any concept, you want to invest in what will benefit from it," Mr. Harding says. "It was clear to us that the way to play China was to buy Hong Kong."

Beijing's late-1985 clampdown on consumer imports and the resurgence of the Hong Kong market last year have altered the shape of both funds. As if in unison, Mr. Harding and Mr. Compton cashed out of the Tokyo market, at least partly, and focused still more heavily on Hong Kong.

In some respects, the Thornton fund is hardly distinguishable at the moment from any other Hong Kong unit trust. Properties account for almost half of Gateway's \$116 million portfolio, the Hong Kong additional quarter and local utilities about 8 percent.

Apart from his share in Rockhaven, however, Mr. Harding has also placed 8 percent of the Gateway fund in Chinavest NV, which is managed by the Orange Nassau investment group and has China-related holdings, and Tian An, a Hong Kong-listed developer with projects in Shanghai, Beijing, and several smaller mainland cities.

China or no China, the Gateway fund appreciated by 64 percent last year, its first full year of operation, compared with a 47 percent rise in the local Hang Seng Index. In this year's second quarter, the fund was



Richard Tompkins

Harding: There's no such thing as a direct play.

up 19 percent, beating the Hang Seng by two percentage points.

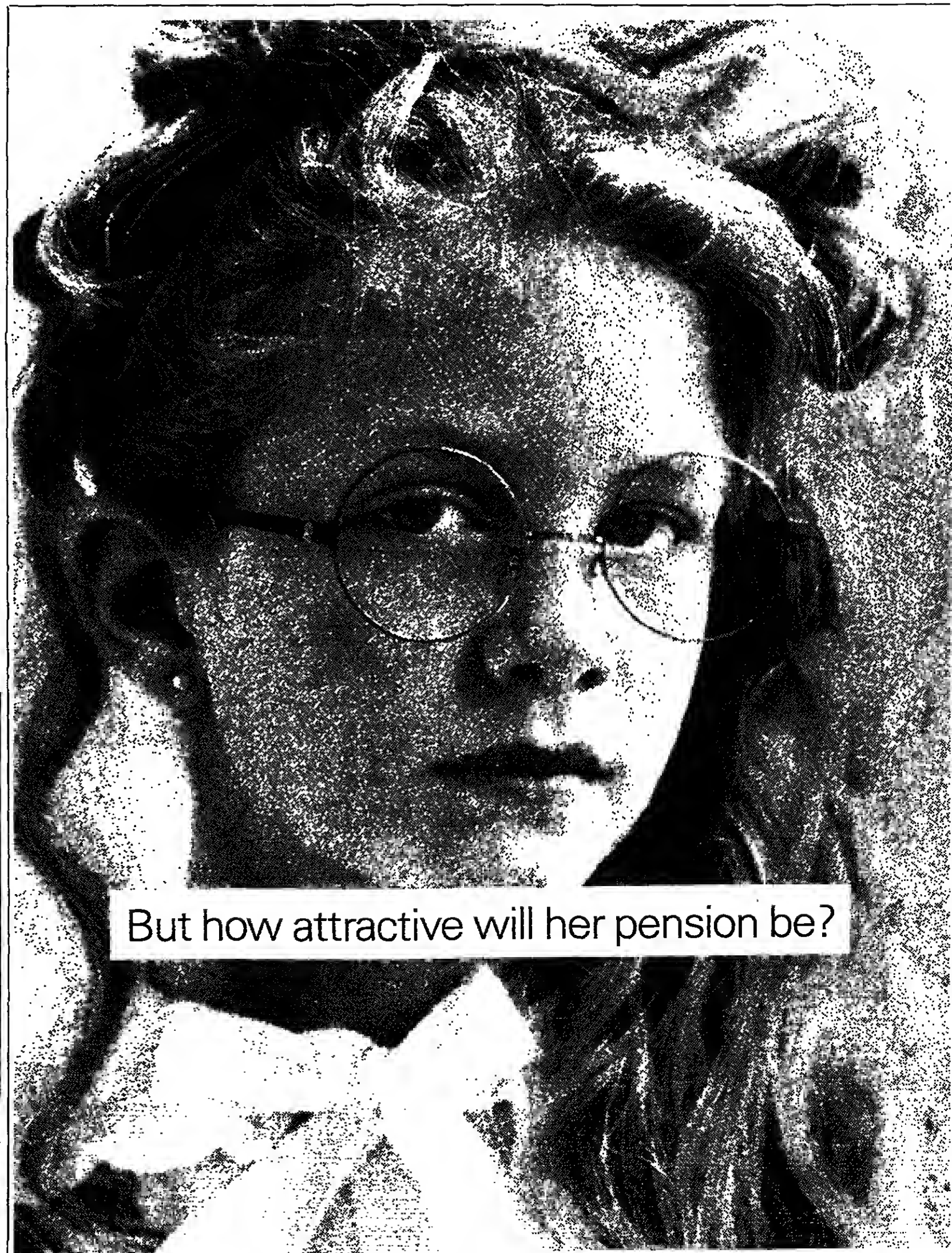
"The China angle looks like a gimmick when the Hong Kong market is running, as it is now," Mr. Harding acknowledges. "But we'll look much different as time goes on."

Similarly, China & Eastern's \$40 million in capital is about 70 percent invested in Hong Kong stocks and 15 percent in Japan. In both markets, however, the focus on China-related businesses is more pronounced. The rest is invested in unquoted mainland ventures.

"The important thing to remember is that the speed of change in China is still well ahead of people's perceptions," Mr. Compton says. Based chiefly on its quoted in-

vestments, China & Eastern was the best performing investment company listed in Britain last year. Issued at 92 cents, shares now have a net asset value of about \$2.45 each; they trade on the London Stock Exchange at roughly 140 pence (\$2.21).

China & Eastern's structure reflects the risk involved in its China stakes. As a quoted investment company with a fixed number of shares, the directors are able to operate within a stable pool of capital that will not shrink overnight if, say, a key reform in China catches a cold. By contrast, a unit trust would have to sell assets to meet redemptions demand, which could pose problems if its holdings were not readily marketable.



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REAL ESTATE

A Modest Rebound In U.S. Farmland

By Cynthia Catterson

AGRICULTURAL property in the United States has hardly proved a hot investment in recent years as hundreds of farms failed amid a worldwide slump in commodity prices.

Lately, though, there are signs that the decline has slowed and almost halted in some areas, according to the U.S. Department of Agriculture and regional Federal Reserve Banks.

Not surprisingly, investors, some of whom are looking for places to stash their stock market profits, have taken an interest in farmland.

"Now is probably the time to step in and pick up bargains," he says. Otto Sprenger, president of the Realtors Land Institute in Chicago, cites the owner of a parcel in northern Illinois who paid \$1,750 an acre for it last fall and recently turned down \$2,100 because he had already received a better offer.

But, as farmers know all too well, agricultural property still has its share of risks. "Poor crops, lower commodity prices and cuts in federal farm subsidy programs can rapidly deplete the investor's returns," explains Colin Halfwassen, president of Halfwassen & Associates, a real estate farm management firm in Champaign, Illinois.

Although there have been more transactions since the spring of this year than there were in the past few years combined, Mr. Sprenger says prices are still low. In inflation-adjusted terms, farmland prices are at their lowest level since 1965, according to the Agriculture Department.

"Buying farmland means being a bit of a contrarian. People have to look under the clouds and see that the fundamentals have improved enough to make an interesting investment," acknowledges Mr. Palen of AgriCapital, which has channeled about \$6 million into farmland since the company was founded in 1979, most of it in the last three years.

Land specialists note that values have fallen to the point where the returns on agricultural property are better than those on short-term money-market instruments. Prime farmland can yield as much as 10 percent annually,

while at the same time giving the investor the chance for a capital gain.

Aside from cash flow from crop sales, investors are finding that agricultural property sometimes has other attractions, such as oil, gas and water rights. Investors are also attracted by the notion of real estate as an inflation hedge and expectations that commodities prices may rise.

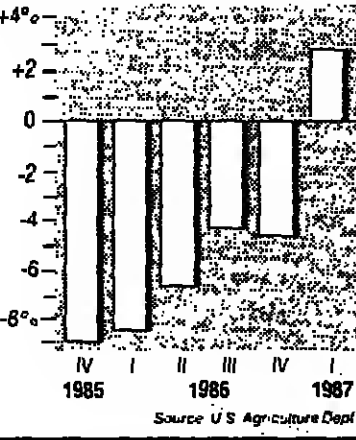
Though traditional buyers of farmland are wealthy farmers who plan to farm the parcel or lease it out, a growing number of limited partnerships have been organized for nonprofessional investors. A partnership organized by Mr. Palen's firm, for example, requires a minimum investment of \$10,000. AgriCapital takes care of all the details associated with managing the farm, from hiring the farmers to taking the crop to market.

Investors can choose how to structure their participation. The most profitable and popular arrangement is known as custom farming, in which the investors assume all the expenses and reap all the profit.

Simpler, less risky and less profitable agreements are cash leases and bushel leases. With cash leases, investors are not involved with the actual crops or proceeds and therefore have limited upside potential. They are merely investing for long-term appreciation of the farm property. With bushel leases, also known as

Turnaround in the Upper Midwest

Percent change in farmland prices by quarter in Minnesota, Iowa, Nebraska and Missouri. Excludes irrigated land and pasture.



Source: U.S. Agriculture Dept.

crop share leases, investors share costs with the landowner and get a percentage of the crops. The only expenses they pay are property taxes.

Investing in farmland is a long-term commitment to an illiquid market. While many farmland experts are predicting dramatic increases in property values, they insist that investors have the patience of a farmer. The waiting period for big payoffs can be greater than 20 years, they say.

The Risk in Raw Land

While some investors are drawn to farmland, others have been tempted recently to buy limited partnerships in so-called raw land near urban areas. This is undeveloped property that is purchased by a syndicator with the intention of turning it over in two to five years to developers for apartments, offices, shopping centers or industrial parks.

The syndicators sometimes install water and electrical services and obtain zoning approval from local governments for potential development so that developers can simply buy and build.

Unlike farmland, raw land has not depreciated over the past few years. Investors are speculating that the property's value will increase substantially because it is near a growing city. "With raw land, you are investing in a hope and a prayer. It has nothing to do with current land values," says Elizabeth Roberts, president of Van Kasper Advisers, a San Francisco-based investment firm.

If the plan works, investors stand to make returns of 20 percent to 200 percent, say syndicators. Limited partnerships from established syndicators, such as The Heartland Group in Seattle and Bennett Consolidated in San Ramon, California, typically require a down payment of \$10,000 to \$15,000, with annual payments of about the same amount to cover taxes, interest payments and improvements. These payments continue until the

property is either sold or paid off. Other syndicators offer less costly shares.

The big risks are that the highway the investors expected to be built never materializes or that local authorities do not approve the parcel for development. One plan was thwarted because environmentalists found an endangered butterfly on the property.

Sometimes the urban sprawl just gives out. "Investors have to be extremely careful about how far out in the boon docks the land is," cautions Robert W. Fitzpatrick, president of Teachers Management & Investment Corp. in Newport Beach, California.

If plans go awry, raw land can turn into a raw deal. Investors' money can be tied up a long time in taxable property that earns no income. Ms. Roberts notes: "Raw land is to commercial property what high-risk growth stocks are to blue chips."

Alan Crittenden, a publisher of real estate newsletters, sees trouble ahead for these deals as housing starts taper off. "Last year predevelopment land was a great idea," he says. "But raw land deals rely heavily on a housing boom, which has already come and is on its way out." Farmland seems a better bet, he says. "Investing in farmland now is like investing in housing in '82 to '83, when it was at its all-time low," he argues. "If farmland hasn't hit bottom yet, we're close enough." Cynthia Catterson

STRATEGY

Betting On a Dollar Rebound

NEARLY two months of a fairly resilient dollar have convinced some U.S. investors that the U.S. currency has bottomed out. For dedicated dollar bulls, the introduction of 10 currency warrants on the American Stock Exchange offer an easy way to bet that the long-term trend will be upward.

Issued by the credit subsidiaries of blue-chip corporate names such as AT&T, General Electric and Ford Motor, the warrants all have the same form. For prices ranging from \$2.63 to \$4.38, each warrant allows the holder to buy \$50 of Deutsche marks or Japanese yen at a fixed exchange rate, called the strike price.

All the warrants expire in either June or July of 1992, and can be exercised in lots of 2,000. A minimum lot of warrants quoted at \$3.50 each would cost \$7,000.

The strike prices are set above prevailing exchange rates for the dollar at the time of the issue, though the dollar has already risen beyond the strike prices of some yen warrants. The terms of the warrants, as the underwriters acknowledge in the prospectuses, are not as attractive as those available to big institutions that play the foreign exchange markets. Individuals, in effect, pay extra for the convenience and simplicity of the instruments.

One attraction is that they are traded and quoted by a major exchange, unlike warrants issued in the over-the-counter market. The structure is also simpler than the currency options traded in Philadelphia and Chicago, which have multiple strike prices and expiration dates. Expiration dates on those options only extend for about a year.

Investors in the Amex's six yen warrants and four mark warrants are betting that at some point before expiration the dollar will be significantly higher than the strike prices. For the warrants to have value, the dollar must move far enough beyond the strike price to cover the cost of purchasing the warrant.

Calculating the exchange rate at which the purchaser would break even gives some indication of how long the odds are. For example, a week ago, General Electric's yen warrant, which carries a strike price of 149.7 yen to the dollar, was quoted at \$4.75. The dollar quoted

Market Scoreboard

Stocks on the New York, London and Tokyo exchanges that showed the largest percentage gains and losses in July.

Table with columns for GAINERS, PERCENT GAIN, PRICE JULY 31, and LOSERS, PERCENT LOSS, PRICE JULY 31. Lists various stocks like Lamour Inc., McIntire Mines Ltd., Jim Walter Corp., etc.

American Stock Exchange

Table listing American Stock Exchange gainers and losers with columns for Percent Gain/Loss and Price July 31.

Over the Counter

Table listing Over the Counter gainers and losers with columns for Percent Gain/Loss and Price July 31.

London Stock Exchange

Table listing London Stock Exchange gainers and losers with columns for Percent Gain/Loss and Price July 31.

Tokyo Stock Exchange

Table listing Tokyo Stock Exchange gainers and losers with columns for Percent Gain/Loss and Price July 31.

that day at 151.5 yen, just over the strike price. Thus, the yen would have to weaken more than 8 percent — beyond 164 to the dollar — before a GE warrant purchased on Aug. 31 would have value. If the yen were to fall to 120 to the dollar, the warrant would be worth \$6.15. So far, investor interest has centered on the yen warrants, says John Eberhardt of Bear, Stearns & Co., which underwrote the first four currency exchange warrants listed on the Amex. Media reports about world-trade frictions have tended to focus on the U.S.-Japanese relationship, notes Mr. Eberhardt, so the "U.S. retail investor is sensitized to the yen."

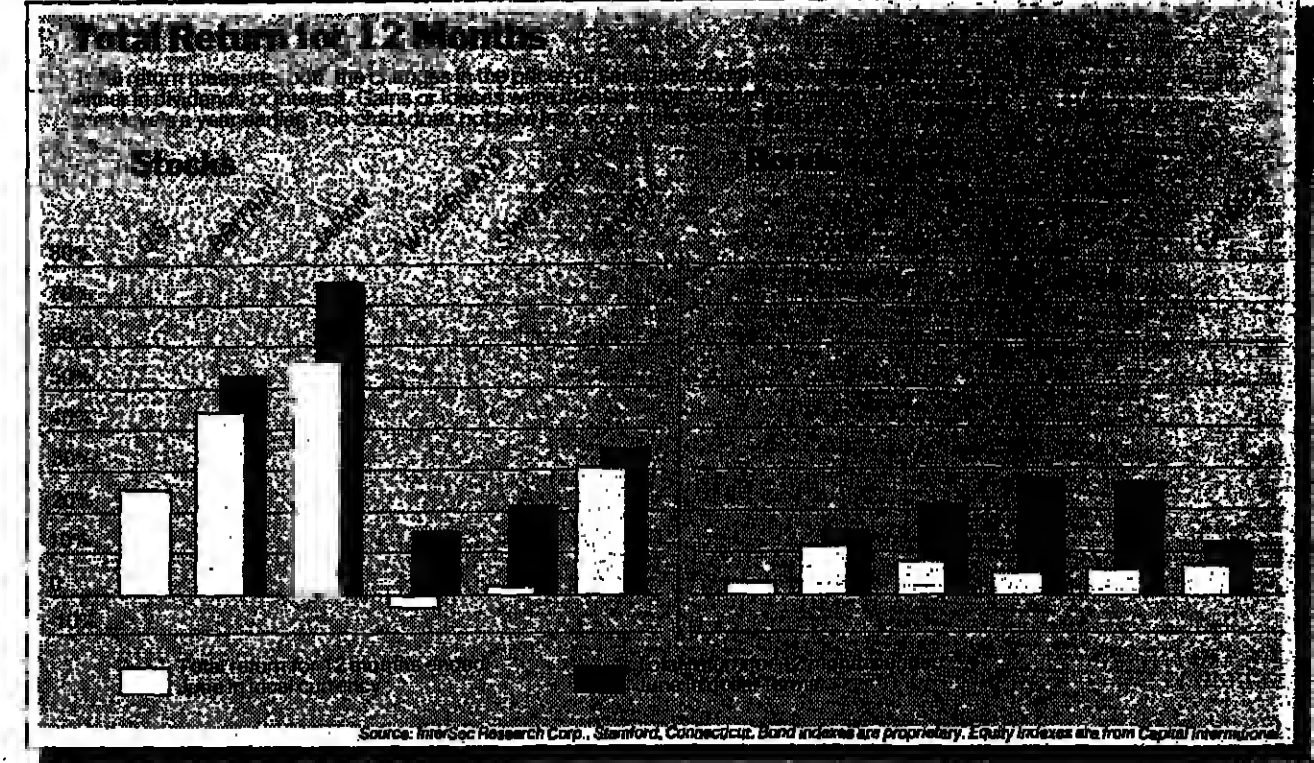
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That's right ... you can win millions by picking your own numbers playing Lotto 6/49—Canada's most popular Government Lottery. In fact, last year Lotto 6/49 paid out \$354,736,589.00 in ALL CASH PRIZES. And it's all free of Canadian taxes. There are two draws each week for a grand prize guaranteed to be not less than \$1,000,000.00 with many millions more in secondary prizes. Grand prizes often run into the millions and have been as high as \$13,890,588.80. Imagine what you could do with that much cash! This is your opportunity to find out because now you can play the lottery that's making so many millionaires in Canada.

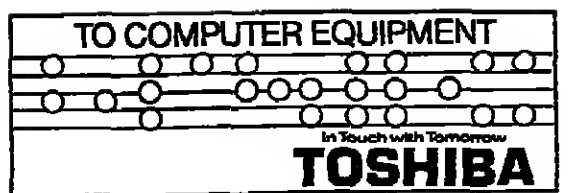
WHAT IS LOTTO 6/49? HOW CAN I PLAY? ORDER TODAY! Includes details about the lottery, how to play, and ordering information.

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When Troubled Companies Offer Rights

deals have helped resuscitate the Brook Hotel Corp. and, less successfully, Radiation Technology and Saxon Oil. "We've done six or seven over the last four years," says Robert M. Davies, a Hallwood executive vice president. For shareholders, rights offerings present a puzzling array of choices, with little time for study. The huge prospectuses can be daunting. "You've got to be a fairly sophisticated investor to plow through a complex document," Mr. Davies said. And as the dismal market action of Radiation Technology and Saxon Oil attests, a company's problems may not be solved by a one-time capital injection. Because of poor management or competitive problems, the company may weaken again as the cash dries up. Thus an investor buying more shares may be throwing good money after bad. Mr. Davies acknowledges a psychological hurdle to enticing existing shareholders to buy. "They've usually lost money by the time we get involved," he says. "And we go to them and say, 'We're going to revive this company, and how about putting up some more money and having another go?'" If rights are not exercised, the underwriter and private investors it has lined up stand ready to buy leftover shares. For its efforts, Hallwood often gets part of the reorganized company — 14 percent of GCA, for example, and 12.5 percent of BancTexas. One reason the investors confronted with rights offerings must act quickly is that the terms establish a price discrepancy — in ef-



MONDAY, AUGUST 10, 1987

Page 11

EUROBONDS

Bank of England Sentence Punishes Sterling Sector

By JONATHAN ENGEL
International Herald Tribune

PARIS — Faced with a youthful criminal offender, British authorities often administer a short, sharp shock — such as a brief stay behind bars. On Thursday, the Bank of England meted out the equivalent restraint to the interest rates was definitely a shock.

But whether this reversal in its monetary policy will be short, or indeed sharp enough to contain the stated threat of higher inflation, remains an open question.

Economists were also puzzled over just why the central bank moved so suddenly. However, many now believe that the authorities finally heeded predictions that a rate rise was necessary to slow down the consumer spending boom that earlier rates had helped stimulate ahead of the June general election.

In the midst of all this confusion, the response from the sterling bond markets was unequivocal. With major British banks following the central bank's lead by boosting their base lending rates to 10 percent from 9 percent, prices of British government bonds and sterling Eurobonds plunged. As of Friday, they showed little sign of recovering ahead of the state of economic indicators due this week, many of which are expected to show a rise in inflationary pressures.

Otherwise, as the international bond market anxiously awaited the U.S. Treasury's quarterly refunding, the other major market news concerned the rejection by banks of a novel proposal to repackage their holdings of perpetual floating-rate notes.

The Bank of England's move was initially interpreted by many analysts as a pre-emptive strike to bolster sterling ahead of the June trade figures due Tuesday. In May, the key current account balance, grouping merchandise trade, services and many financial transfers, had dropped to a surprise deficit of \$561 million, largely on a sharp jump in imports. Many economists had expected this broad measure of trade to break even, or register a slight surplus.

THIS trade news battered sterling, as it indicated both a large supply of pounds overseas and the need to lower the exchange rate to improve trade performance. At the same time, the belief that a lower pound would increase costs of imported goods and thus prove inflationary helped undercut prices of stocks and bonds, especially as the figures followed big increases in bank lending and retail sales for June, two other inflationary indicators.

On Thursday, believing that the central bank knew more bad figures were on the way for June, investors again dumped British government bonds and stock shares. The government's benchmark 114 percent bonds due 2003/07 fell about 3 percentage points to 113 22/32, then fell another point on Friday before recovering slightly to 113 22/32. Dealers said the late rebound reflected market participants' closing out their speculative sales to take profits, rather than much fresh buying.

Sterling Eurobonds, being a less-liquid market, suffered less, although prices were down around 2 points on Thursday, and closed unchanged Friday after originally extending the losses in morning trading.

Nigel Lawson, chancellor of the Exchequer, said the interest rate rise was intended to keep inflation low at a time when the economy, by U.S. and European standards, is growing. Growth in gross domestic product, excluding oil-related goods and services, is steaming along at 4.5 percent. Inflation, on an annual basis, stood at 4.2 percent in June.

Mr. Lawson denied that the move was connected to the upcoming trade figures. Yet some British economists, taking the chancellor at his word, detect unsettling trends for the economy, and the sterling bond markets.

"To my suspicious mind," said Stephen Lewis, director of economic research at Phillips & Drew, the British brokerage, the chancellor's denial suggests "that the trade figures will be quite good but that all the other figures will be quite bad." He is forecasting a current account deficit of £100 million, the low end of an analysts' range that extends to around £300 million.

He said he also believed the underlying reason for the bank's action was to quell "financial excesses." For example, speculation on the London Stock Exchange has inflated prices with little regard to fundamental share values. In fact, after the bank's move, the Financial Times-Stock Exchange index of 100 leading shares fell 91.2 points over two days.

Also, the war chest being raised domestically by several British companies to buy U.S. concerns will result in the export of large amounts of pounds for dollars, he noted, thereby complicating the government's attempts to control the exchange rate. Last

See EUROBONDS, Page 13

Ongpin Threatens To Resign

Aide Says Manila Must Honor Debt

Compiled by Our Staff From Dispatches

MANILA — Finance Secretary Jaime Ongpin has said he would resign if a law were passed repudiating part of the country's foreign debt. He said such a move could wreck the Philippine economy.

Reacting to proposals in Congress that the Philippines disown part of its \$28 billion debt, Mr. Ongpin said, "I couldn't implement such radical change."

"They would have to find someone else," he said Saturday at a news conference.

He said nonpayment of debt would cause instability that would reverse any economic growth the country has achieved.

Mr. Ongpin faces a Senate hearing on debt on Monday.

Senators have filed bills that would limit annual debt payments to 10 percent of commodity export earnings and suspend principal payments for three years.

About 45 percent of the country's export receipts go to the servicing of debt.

The legislative moves follow a speech on July 27 by President Corason C. Aquino in Congress in which he sharply criticized the country's commercial bank lenders for having imposed what he described as *ad hoc* credit conditions.

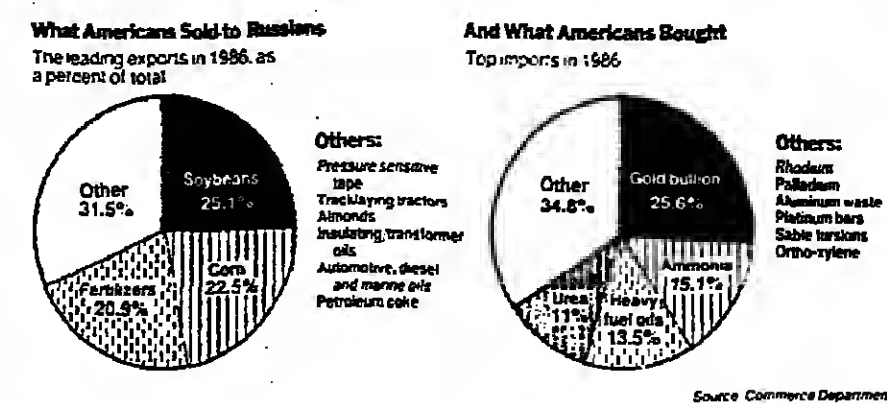
She stopped short of calling for debt repudiation but talk of such a measure has been rife among legislators since the address.

Mr. Ongpin said Saturday that repudiation would bring about limitations on access to credit, cancellation of trade facilities and erosion of investor confidence.

Several senators are seeking Mr. Ongpin's resignation, saying he did not defend the Philippines' interests when he signed an agreement with bank creditors July 17 rescheduling \$13.2 billion in foreign commercial loans.

Legislators have also spoken in favor of repudiating part of the debt contracted during the term of President Ferdinand E. Marcos, now in exile. (AFP, Reuters)

The Flow of Goods Between the Soviet Union and the United States



Soviets Eagerly Eyeing U.S. Market

But Their Manufactured Goods Face Obstacle Course

By Clyde H. Farnsworth
New York Times Service

WASHINGTON — The United States has just imposed a quota on some imports from a most unlikely country: the Soviet Union. Why not? Because imports from the Russians in general are so small, totaling only \$601 million last year, and the product restricted—a cotton fabric—accounted for only a minor portion of that.

The quota is the latest frustration for the Russians, who have been trying to increase their exports of manufactured goods to the United States. These include tractors, textiles, helicopters, binoculars and excavators. And they would like to begin selling cars in the United States within the next few years.

The Soviet Union is eager to sell more manufactured goods to the United States for two reasons: It wants to earn more dollars to raise its sagging foreign currency reserves, and it is one of the few countries running a merchandise trade deficit with the United States (\$650 million last year).

"We are naturally trying to make our trade equal," said Oleg V. Kozhevnikov, commercial minister at the Soviet Embassy and the Soviet Union's trade representative in the United States.

Trade statistics in 1985, for example, showed the Soviet Union imported about \$2.6 billion worth of U.S. goods, while Americans bought only \$600 million in Russian products. Since then, U.S. exports to Soviet

Union, mainly wheat and corn, have fallen steeply. But Soviet exports to the United States, several long-standing obstacles seem to preclude any significant increase. One is that Soviet products have a reputation for poor quality.

The other is the Jackson-Vanik amendment, which allows Communist countries to receive trade and respect for human rights as fundamental concerns, which bear on possibilities for improving the trade relationship.

Even so, the Soviet Union has had some initial success in expanding its offerings in the United States, which has consisted mainly of fertilizers, oil and related products, metals, other raw materials and vodka.

In a marketing program that is little more than a year old, the Soviet Union has sold about 1,000 small Belarus tractors in the Farm Belt.

Some analysts believe that Moscow's purchase of 8 million tons of American grain in recent months may have made U.S. farmers more willing to buy Russian tractors.

"Our experience in tractors shows that American farmers were very happy to buy a product that catered to their needs with a price acceptable to them, and they didn't care where it was made," said Ana Orzemet, chairman of the New York-based Sotra Corp., which sells Soviet tractors in the United States.

An U.S. trade official added: "The thing gets sold. They are the right mix of price and simple operation."

But as the Soviet Union has learned with textiles, efforts to sell manufactured goods in the United States can run into roadblocks.

See TRADE, Page 15

Caledonian Says It Will Pursue Merger With BA

LONDON — British Caledonian Airways has decided to stand by its agreement to merge with British Airways despite a government investigation that could block the transaction, British Caledonian's chairman, Sir Adam Thomson, has said.

The government decided last week to refer BA's £237 million (\$370 million) offer for BCal to the Monopolies and Mergers Commission. The commission must determine whether or not the merger will undercut competition in the airline industry.

The bid lapsed automatically when the referral was made, although BA said it would seek to revive its offer if the commission made a favorable ruling. British Caledonian's board met Saturday and agreed unanimously to support the inquiry.

The board's other alternative was to pull out of the agreement and look for another partner. Caledonian, the second largest British airline after BA, had been holding exploratory talks with several foreign airlines just before the BA merger proposal.

Industry sources said last week that British Caledonian had held talks with Alitalia, KLM Royal Dutch Airlines, Air France, and American Airlines among others. Sir Adam said he was pleased

with the BCal board decision, adding that a merger to form a powerful British carrier to compete against major U.S. airlines remained the company's preferred objective.

But he said British Caledonian, which has been losing money, was also keeping other options open. BCal reported losses of £19.3 million in the year that ended last Oct. 31.

British Airways, recently sold to the public, has already said it will cooperate with the commission in the investigation.

The commission will take three months to decide whether the proposed merger, announced July 16, would hamper competition, and therefore be against consumer interest.

Critics of the merger said that if it had gone ahead without an investigation, serious questions would be raised about the government's stated policy of encouraging competition in the aviation industry.

Sir Adam said that if the commission had been given longer than three months, the airline would have had to consider other alternatives. A long inquiry, he said, would have taken Caledonian into the period when it traditionally concluded bulk travel contracts with agents and tour operators around the world.

See TRADE, Page 15

García Says Bank Move Poses Political Threat

LIMA — President Alan García Pérez has acknowledged that pushing forward immediately with the nationalization of Peru's private banks and financial firms could pose a threat to his government.

After announcing that he would suspend temporary government administration of the financial institutions, Mr. García said, "I remember Salvador Allende, president of Chile, used to say 'Advance without compromise, I am not going to make the same mistake.' Allende was overthrown and killed in 1973."

"I will not allow Peru to arrive at a dramatic, tremendous dictatorship that kills many Peruvians," Mr. García said in an interview on Saturday.

However, he made clear that he still backed the nationalization of the 10 private banks, six credit institutions and 16 insurance companies.

Mr. García imposed government control on the financial institutions as an interim measure after he announced his nationalization program on July 28.

"We are respectful of the constitution and the decisions of the supreme chief of the armed forces and consequently must give our support and backing to all that his popularly elected government does," General Jorge Flores told the official Andina news agency.

See TRADE, Page 15

SEC Tries to Sharpen Definition of Insider Trading

WASHINGTON — The Securities and Exchange Commission, ending years of vagueness, has proposed a definition of insider trading.

The agency proposed language for Congress to use in writing a law that would state precisely the circumstance under which it is illegal to use confidential information to profit from securities trading.

The topic has become critical because of the recent insider trading scandal on Wall Street.

The SEC has always enforced commonly accepted notions of insider trading, such as when a director of a company trades on information not yet available to other investors. The definition, which

was issued Friday, continues to adopt that standard view. But it also tries to embrace other issues that courts have been grappling with.

The SEC is trying to close two loopholes in existing court cases but may also be softening an important standard under which some inside traders have been prosecuted. That standard is called "misappropriation."

The SEC has maintained that a trader acts illegally whenever a trade is based upon nonpublic, market-sensitive information.

Nowhere in the new definition is the word "misappropriation," and some experts suggested the omission might mean that the SEC was backing off from the standard.

The standard was developed by the SEC after the Supreme Court ruled in 1980 that a printer, Raymond Chiarella, had not committed illegal insider trading by piecing together financial documents information about tender offers and then trading on that information.

For years, SEC officials would not offer a definition of insider trading, thinking that such a definition might be useful to defense attorneys looking to evade the law. Instead, the regulator relied on the broad prohibitions in federal securities laws against fraud in securities transactions.

The SEC itself decided that a definition could close two important loopholes and help it prosecute insider traders.

The SEC proposal explains when information is "wrongfully" obtained or used. Wrongfully is defined as theft, bribery, misrepresentation, electronic espionage, and most important, breach of any "fiduciary, contractual, employment, personal or other relationship." The SEC is thus trying to bring duty directly to this array of relationships.

One loophole the proposed definition is intended to close is a provision under current law requiring the SEC to prove that a trade was made "on the basis" of illegal information. Many defendants claim that their trade was made using information that was commonly available.

The new proposal would say simply that no one can trade while in the possession of illegal information, whether or not that is the basis for the decision to invest.

Currency Rates

Table with columns for Country, Unit, and Rate. Includes entries for Amsterdam, London, New York, Paris, Tokyo, etc.

Other Dollar Values
Currency per U.S. Dollar
Austrian schilling 13.7603
Belgian franc 20.3606
British pound 1.645633
Canadian dollar 0.713702
Danish krone 6.465631
Deutsche mark 1.936271
French franc 6.559574
Italian lira 2036.27
Japanese yen 160.8091
Mexican peso 16.6773
Netherlands guilder 2.20371
New Zealand dollar 1.35633
Norwegian krone 4.75633
Portuguese escudo 200.482
Spanish peseta 166.639
Swedish krona 4.665631
Swiss franc 2.00481
Taiwan dollar 20.3606
West German mark 1.936271

Sources: Reuters, Bank of America, Citicorp, etc.

Last Week's Markets

Table with columns for Market Index, Date, and Change. Includes entries for DJ Index, NYSE, etc.

Benz Bends on Rebates To Clear Cars in U.S.

Softer Dollar Forces Financing Move

By Warren Brown
Washington Post Service

WASHINGTON — It is not the sort of thing one would expect of Mercedes-Benz of North America, distributor of some of the most expensive and sought-after cars. Maybe that is why the company has made no public announcement.

But Mercedes-Benz is offering rebates on many of its leftover 1987 model cars.

There is a catch: The rebates, ranging from \$1,000 to \$3,000, go to Mercedes-Benz dealers that have already exceeded their sales quotas for this year. Dealers, in turn, can offer some, all or none of the rebates to buyers of their cars, which have sticker prices ranging from \$28,450 to \$59,580.

If the Mercedes-Benz dealership is not eligible for rebates, the buyer can still bargain — since that dealership, in all likelihood, has an oversupply of cars.

Shoppers for more modest cars can count on sales incentives on most U.S. autos as well as some imports. Faced with an overall 75-day supply of cars, the Big Three U.S. automakers — General Motors Corp., Ford Motor Co. and Chrysler Corp. — have all announced sales incentive programs with cut-rate financing as low as 1.9 percent.

So far Subaru is the only Japanese manufacturer offering incentives, using 3.9 percent loans and rates of up to \$1,500 in an attempt to shrink its estimated 87-day supply of unsold cars.

Auto industry analysts say the domestic makers have offered incentives so routinely that buyers have come to expect them. But that

Kaufman Sees Rising Prices, Possible Recession in 1989

NEW YORK — Accelerating inflation in the United States could trigger a recession in 1989, according to Henry Kaufman, chief economist for the brokerage house Salomon Brothers and one of the most influential U.S. economic analysts.

"I think we have probably seen the low in the inflation rate. There are chances inflation will go higher," Mr. Kaufman said Friday.

He said he thought the expansion of the U.S. economy, which has been going on for five years, would end in late 1988 or 1989.

"There's a high risk that late next year, or more likely in 1989, we will see another downturn in the American economy," he said.

"I think it will be triggered in part by the increase in inflation that won't be tolerated by the central bank," the Federal Reserve, "and the government generally."

"There will be higher interest rates, stifling of the availability of credit, the dollar problem will persist from time to time and that will contribute to it and then we face a recession," Mr. Kaufman said.

On Wednesday, the Reagan administration raised its estimate of the 1987 inflation rate to 4.8 percent, a full point higher than the 3.8 percent it estimated in January.

See TRADE, Page 15

Buchsbaum, Citing Threats, Drops Bid for Holly Sugar

LOS ANGELES — Michael Buchsbaum, former chairman of Holly Sugar Corp., has said that a series of death threats against him and his family led to the failure of his \$133 million bid to take over the company.

Mr. Buchsbaum resigned Thursday after Holly's board terminated the merger agreement with his group, Arcanum I Partners. The board said the group was delaying the buyout.

Mr. Buchsbaum, who will remain a director of Holly, said Friday that he had received several death threats in the past two weeks, linked to the buyout.

This was Mr. Buchsbaum's second attempt to take over the second-largest U.S. sugar processor, based in Colorado Springs, Colorado. He tried to take Holly private in a leveraged buyout in 1982, but failed for lack of financing.

An FBI spokesman said the agency was investigating threats "both written and verbal" leveled at the Buchsbaum family.

Some people familiar with the negotiations surrounding the bid for Holly were skeptical about Mr. Buchsbaum's resolve to complete the takeover. His group had received \$80 million in financing commitments from National Westminster Bank USA.

One executive close to Holly said he expected Brookhill Equities Inc., a New York investment concern that owned 10 percent of Holly's stock on June 29, to revive its recent bid for Holly.

Holly shares closed Friday on the New York Stock Exchange at \$90.25, down 25 cents.

See TRADE, Page 15

Singapore GDP Ahead 7.4%

SINGAPORE — Singapore's gross domestic product, adjusted for inflation, grew 7.4 percent in the second quarter of 1987, confirming the economy's recovery from a recession two years ago, the government reported Saturday.

The Trade and Industry Ministry said the growth compared with 7 percent in the first quarter and 1.2 percent in the year-earlier quarter.

"With the momentum of growth expected to be sustained for all the major sectors except construction, overall growth for 1987 is expected to be about 6 to 7 percent," the ministry said.

Last year, GDP grew 1.8 percent after shrinking 1.6 percent in 1985.

The ministry said that strong foreign demand in the second quarter had helped stimulate the economy.

Exports rose to 14.6 billion Singapore dollars (\$6.9 billion) in the second quarter from 12.37 billion in the first quarter.

See TRADE, Page 15

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New International Bond Issues

Compiled by Laurence Desvignes

Issuer	Amount (millions)	Mat.	Coup. %	Price	Price and week	Terms
FLOATING RATE NOTES						
Council of Europe	¥10,000	1994	3/4	100	—	Below Japanese long-term prime rate, semiannually, Noncallable, Fees 0.55%, Denominations 10 million yen.
ENEL	¥10,000	1992	0.55	100.40	—	Below Japanese long-term prime rate, semiannually, Callable at par in 1989, Fees 0.55%, Denominations 10 million yen.
FIXED-COUPON						
Toyota Motor Credit	\$150	1990	8 1/2	101 5/16	99.90	Noncallable, Fees 1.06%.
Kreditbank	mk 300	1991	10 1/2	100 3/4	99.00	Noncallable, Fees 1.06%.
Esportifinos	cs 70	1994	10 1/2	101 1/4	99.25	Noncallable, Fees 1.06%.
EQUITY-LINKED						
Daiichi Chemical Industries	\$100	1992	3 1/4	100	98.63	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 78 1/2 yen per share and at 151.80 yen per dollar. Fees 2.05%.
Fujitsu Pharmaceutical	\$100	1992	3	100	100.00	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 7,307 yen per share and at 151.80 yen per dollar. Fees 2.05%.
Furukawa Electric	\$150	1992	open	100	98.75	Coupon indicated at 3 1/4%. Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 78 1/2 yen per share and at 151.80 yen per dollar. Fees 2.05%.
Grace (W.R.)	\$150	2002	6 1/4	100	99.38	Semiannually, Callable at 103 in 1990, Convertible at 98 1/4, or 19.00% premium, Fees 2.05%.
Hitachi Cable	\$ 60	2002	1 1/4	100	100.00	Semiannually, Callable at 103 in 1992, Convertible at 1,260 yen per share and at 152.70 yen per dollar. Fees 2.05%.
Kyowa Bank	\$100	2002	1 1/4	100	98.50	Semiannually, Callable at 103 in 1992, Convertible at 1,261 yen per share and at 152.70 yen per dollar. Fees 2.05%.
Mitsubishi Bank	\$300	2002	1 1/4	100	100.00	Semiannually, Callable at 103 in 1992, Convertible at 1,261 yen per share and at 152.70 yen per dollar. Fees 2.05%.
Mitsubishi Metal	\$300	1992	3	100	—	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 882 yen per share and at 151.40 yen per dollar. Fees 2.05%.
NGK Insulators	\$150	1992	3	100	97.50	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 844 yen per share and at 152.30 yen per dollar. Fees 2.05%.
Nippon Oil	\$300	1992	3	100	97.75	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 845 yen per share and at 151.80 yen per dollar. Fees 2.05%.
Ono Pharmaceutical	\$150	1992	3	100	103.00	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 697 yen per share and at 152.30 yen per dollar. Fees 2.05%.
Prima Meat Packers	\$ 70	1992	3 1/4	100	97.00	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 620 yen per share and at 152.30 yen per dollar. Fees 2.05%.
Sanwa Shutter	\$ 70	1992	3	100	—	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 620 yen per share and at 152.30 yen per dollar. Fees 2.05%.
Showa Denko	\$200	1992	3 1/4	100	98.00	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 620 yen per share and at 152.30 yen per dollar. Fees 2.05%.
Sumitomo Construction	\$ 50	1992	open	100	97.00	Coupon indicated at 3%. Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 620 yen per share and at 152.30 yen per dollar. Fees 2.05%.
Takeda Chemical Industries	\$ 80	1994	open	100	98.50	Coupon indicated at 4 1/4%. Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at 620 yen per share and at 152.30 yen per dollar. Fees 2.05%.
Hillsdown Holdings	£ 150	2002	4 1/4	100	99.25	Redeemable in 1992 to yield 8.51%. Convertible at a 28% premium. Fees 2.05%.
WARRANTS						
J. Aron	0.010	1989	—	—	\$470	Put warrants each exercisable into 100 barrels of West Texas Intermediate oil at \$21.50 a barrel. Brokerage price \$16.80, issuer is a unit of Goldman Sachs.
J. Aron	0.010	1989	—	—	\$400	Call warrants each exercisable into 100 barrels of West Texas Intermediate oil at \$21.50 a barrel. Brokerage price \$25.50, issuer is a unit of Goldman Sachs.

German GNP Is Forecast To Grow Just 1.75% in '88

MUNICH — West Germany's gross national product, adjusted for inflation, will rise by 1.75 percent in 1988 after growing by an estimated 1.25 percent this year, according to predictions by the IFO economic research institute.

The institute's forecasts are lower than government targets of 2.5 percent growth in 1988 and 1.5 percent to 2 percent this year.

The institute said in a monthly report that growth in GNP, which measures a country's total output of goods and services including income from foreign investments, would be too small to improve the labor market.

The unemployment rate will rise to 9 percent this year and 9.1 percent in 1988, from the current 8.7 percent, it forecast.

Otto Schlecht, state secretary at the Economics Ministry, said Saturday that the government's targets were realistic.

But the economic research institute said, "The development of the West German economy since the autumn of 1986 shows more than a temporary disturbance of the growth process. Developments since then mark a clear reduction of the growth rate."

Industrial output may fall slightly and industry will be unable to contribute much to growth in the next few months, the institute said. It said exports would pick up next year but would be offset by the continued strength of the mark.

Construction Firms In West Germany Plan to Invest Less

BONN — West German construction companies have scaled back investment plans for 1987 because of a reduction in demand for building work earlier this year, the Building Industry Association said Saturday.

It said a survey of companies showed the concerns would increase investment by 7 percent in 1987, compared with a 17 percent rise seen in autumn last year.

Demand for construction work had fallen nearly 6 percent in the first five months of the year, the industry association said.

It added that investment was mainly aimed at replacement of existing equipment and rationalization, not at expanding capacity.

Pickens's Stake Is Said to Make Singer a Target

DALLAS — T. Boone Pickens's announcement that his Mesa Limited Partnership owns 4.4 percent of Singer Co. and might buy up to 15 percent has put the company into takeover play, according to some analysts.

They said that although Mr. Pickens could easily finance the purchase of all of Singer's 21 million shares, which could cost as much as \$1.3 billion, he may not be the ultimate buyer.

Mr. Pickens announced Mesa's holding in Singer, a military supplier, on Friday.

On July 28, Boeing Co., which is a military contractor as well as an aircraft manufacturer, said Mr. Pickens was seeking government approval to buy up to 15 percent of its shares.

Industry analysts have said that, in contrast to the situation with Singer, Mr. Pickens's plan to buy Boeing stock was more likely a move for short-term profit than to prelude a takeover attempt. Boeing has a market value of nearly \$8 billion.

Mr. Pickens's filings were made under the Hart-Scott-Rodino antitrust law, which requires



A visual system at a Singer flight simulation unit.

notification in the Justice Department of an intention to buy more than \$15 million or up to 15 percent of a company's stock.

Singer's stock price jumped \$4.625 Friday, to \$51.50, with more than a million shares traded on the New York Stock Exchange. The stock traded as low as \$27.625 as recently as June 30. Boeing's shares lost 87.5 cents in active trading, to \$51.25.

Joseph B. Flavin, Singer's chairman and chief executive, declined to comment on the Mesa announcement, which was made before trading began.

Mr. Pickens is under pressure to produce additional income to cover an expected shortfall of \$100 million between Mesa's cash flow and its commitment to pay \$306 million in annual cash distributions on its common and preferred units.

Mesa has invested in several energy-related companies this year, including Amerada Hess Corp. and Burlington Northern Inc., but sold most of the stakes without making large profits.

After spinning off its sewing machine operations last year, Singer saw its revenue and profit fall. It earned \$58.5 million, or \$2.63 a share, last year, a 28.9 percent decline from the company's high of \$82.3 million, or \$4.30 a share, in 1985. Sales fell 28.1 percent to \$1.7 billion.

Philip W. Friedman, a defense industry analyst with Drexel Burnham Lambert Inc. in New York, said that Boeing, Chrysler, Allied-Signal Inc. and General Dynamics Corp. were among the potential bidders for Singer.

"Pickens may not be the ultimate buyer of Singer," he said, "but he probably has put it into play."

Catherine Montgomery, an energy analyst with Donaldson Lufkin & Jenrette in New York, said that if no other bidders emerged, Mr. Pickens could "easily manage" to finance a Singer takeover.

Mesa has more than \$300 million in cash, and credit lines of more than \$600 million.

Minnetonka to Sell Soap Unit To Colgate for \$60 Million

CHICAGO — Minnetonka Corp., which pioneered the consumer liquid soap business in 1979, has said that it will sell the business to Colgate-Palmolive Co. Minnetonka, which makes Obsession perfume and other consumer products, said it would receive between \$60 million and \$65 million for the soap business.

Analysts said that the move, announced Friday, means Minnetonka, which is based in Chaska, Minnesota, can now more effectively market products with high margins. But they noted the company's exit from the liquid soap business illustrates a recurring problem: Whenever one of Minnetonka's innovations catches on, giant companies move in with a similar product, gobbling up market share.

Minnetonka, for example, introduced Check-Up toothpaste, a pump-dispenser, in 1984. Procter & Gamble and Colgate followed suit, and Check-Up's share of the toothpaste market fell to 2 percent, from 5 percent. Minnetonka decided to sell Check-Up early this year.

"Toothpaste and soap are price-competitive categories," said Nancy Hall, an analyst with Smith Barney, Harris Upham & Co., adding that in the areas where Minnetonka remains, "like fragrance, price is not an issue, and that is where they shine." Indeed, Obsession is expected to report sales of \$85 million in 1987 and \$100 million in 1988.

H.K. Panel Warns on 'B' Share Issues

HONG KONG — The Standing Committee on Company Law Reform has recommended that there be no "indiscriminate" issue of controversial "B" shares, which three big companies tried to issue.

The committee, which advises the government, said Saturday it was "opposed to the indiscriminate issue of 'B' shares by listed companies, which it considers could be used by substantial shareholders as a means of transferring capital out of Hong Kong while maintaining actual control of the companies."

The special shares would allow big investors to reduce the value of their holding while maintaining their voting share in a company. Jardine Matheson, Cheung Kong and Hutchison Whampoa tried to issue the shares, but the government refused, pending a review.

Work Begins on China Nuclear Plant

HONG KONG — Work on the main reactor complex at China's first commercial nuclear power plant has begun at Daya Bay near the border with Hong Kong.

Hong Kong environmental groups petitioned Chinese leaders last year in a bid to halt construction at the site, 30 miles (50 kilometers) north of the British colony.

Guangdong Nuclear Power Joint Venture Co. was set up in 1983 by China's Guangdong Province and Hong Kong's China Light & Power Co. Most of the electricity is destined for Hong Kong.

The venture is to buy two pressurized water reactors from Framatome, a French nuclear supplier, and two turbine generators from General Electric Co. of Britain.

Dome Rejects Yellowknife Bid

CALGARY, Alberta — Dome Petroleum has rejected a 447 million Canadian dollar (\$335 million) offer from Giant Yellowknife Mines Ltd. for its 21.5 percent stake in Dome Mines Ltd.

Giant Yellowknife had offered Dome Petroleum 21.50 dollars a share for its 20.8 million shares in Dome Mines.

Giant Yellowknife said it would have used the shares to block a planned merger by Toronto-based Dome Mines with Place Development Ltd. of Vancouver and Campbell Red Lake Mines Ltd., a Dome Petroleum unit. Dome Petroleum said it would vote its shares in favor of the merger this week.

EUROBONDS: Bank of England's Shock Treatment

(Continued from first finance page) week above, British companies launched takeover bids totaling \$3.7 billion for U.S. companies.

"They are worried about domestic monetary conditions," Mr. Lewis said. "I think it speaks volumes about the state of monetary conditions that sterling, instead of rising, showed no reaction to last week's tension in the Gulf. The pound closed the week lower on its trade-weighted index against a basket of currencies, at 72 percent of its 1975 value after 72.3 the previous Friday.

Richard Golding, head of bond market research at Kleinwort, Grieveson, Charlesworth, a British investment banking firm, also played down the trade figures. He said he believes that May's large current account deficit was an aberration, and expects a £250 million deficit for June, and a relatively modest £500 million deficit for the year.

Yet he wonders why the British authorities suddenly became worried about monetary policy, after showing little response in the past few months to the dramatic growth in bank lending and the 14 percent to 18 percent annual growth rates in broad measures of money supply. These indicators of future inflation had already begun to worry the market.

"Based on past performance, we didn't expect the government to pay much attention to those concerns," Mr. Golding said. Thus when government acted, the market suddenly wondered if things were worse than they had expected.

British monetary policy previously had been focusing on exchange rates, Mr. Golding said. The authorities had been trying to strike a balance between sterling appreciating so much that British exports became unattractive, and depreciating to an extent that imports would become more expensive, boosting inflation.

In the spring, the Bank of England had helped push base rates to 9 percent from 11 percent to stifle demand for pounds ahead of the upcoming election, yet inflation appeared to be under control.

Now, the 1 percentage point rise creates a credibility problem, Mr. Golding said. Traditionally, in dealing with domestic monetary policy, "it has normally required more than a 1 percentage point rise in interest rates to have the type of effect that they need" to dampen inflationary expectations.

For example, if the bank wanted to control a growing money supply by drawing funds out of circulation through a rise in yields on government bonds, thus making them more attractive for investors, the increase should be greater.

Yields on long-dated government bonds reached about 10.25 percent after the bank's announcement, Mr. Golding said, although they later fell back to around 10 percent.

"Is this a level that looks reasonable to buoy the market? I don't

think it is," Mr. Golding said. Investors are already seeking returns over 10 percent simply by putting money on deposit for three months.

Yields on the benchmark 2003/07 bond would have to reach at least 11 percent to stimulate buying, he argued.

Mr. Lewis of Phillips & Drew is more optimistic for the market in government bonds, or gilts.

"I think many people in the gilt market will feel happy that the government has taken prompt action,"

discussing plans to harmonize their regulations on bank capital, said fears that the Bank of Japan would join this exercise was a contributing factor to the plunge in perpetuals.

Thus the Schroder plan would have transformed the perpetuals into 28-year FRNs, requiring only an expected 10 percent capital weighting from the Bank of England, rather than 100 percent.

But there were no takers.

"What had been perceived to be a problem here in London is not seen to be a problem of the same level of acuteness by others," particularly the Japanese banks, Mr. Blackie said. Some FRN specialists added that because the impact of perfect harmonization of bank capital rules would have a devastating impact on Japanese banks, the Bank of Japan is expected to take a more flexible approach.

Japanese banks had also been given much leeway in deciding what their perpetuals were worth, the FRN specialists said. Therefore, they were reluctant to take the initial 7 percentage point loss from face value on their FRNs that the Schroder plan entailed.

Under certain circumstances, they added, it appeared that any banks acknowledging this accounting loss on their holdings would not be able to convince domestic tax authorities to count this loss against their taxes.

The premium payment that was required to tender the FRNs also proved an obstacle, Mr. Blackie said, even after the payment level was reduced. However, he argued that the system was not properly understood. "The very strong feedback that we got was that price was not the issue."

Victor Maruri, an FRN specialist with Credit Suisse First Boston Ltd., offered three major reasons why the idea didn't catch on. First, not all investors in perpetuals were facing capital adequacy restrictions. Aside from the Japanese banks, holders include insurance companies and other institutional investors, he noted.

Second, many investors bought paper after the price crash and, rather than worry about minimizing their losses, are eager to profit from any price rise. Third, the British institutions that held perhaps \$50 to \$100 million each in underwriting or trading positions have largely liquidated their holdings in the market.

CSFB advised clients that, regardless of their exposure to capital adequacy rules, if they held high-quality perpetuals it was better to sell them in the market, even though market liquidity has shrunk drastically.

If, however, they were affected by capital adequacy rules and held low-quality perpetuals that would attract few market bids, then the Schroder plan should be considered. As it turned out, there were few banks in this second category.

"It was a very clever design to cater to various needs, but they discovered that these needs weren't really there," Mr. Maruri said.

he said, "I think the gilt market probably will find a trading level not too far away from the current trading level," where the bellwether bond due 2003/07 is yielding around 10 percent.

Meanwhile, last week was a disappointing one for the merchant bank J. Henry Schroder Wagg & Co. No commercial banks accepted its novel offer to transform \$1 billion worth of perpetual floating-rate notes into a combination of FRNs with a 28-year life and shares in a special-purpose company owning the underlying undated FRNs.

The concept, which had drawn mixed reviews, was the most far-reaching plan to date to deal with the losses stemming from the collapse of the \$18 billion perpetual FRN market late last year.

"At worst, it was premature," said Henry Blackie, a Schroder director and a main architect of the plan, noting that it had raised still-unanswered questions involving regulations for bank capital and tax write-offs.

Specifically, problems involving capital adequacy that it had sought to address apparently were not yet a great concern among Japanese banks, the major holders of perpetuals.

In contrast, commercial banks within the Bank of England's jurisdiction face a major capital adequacy constraint if they hold perpetuals as investments: The central bank requires them to reduce their own capital by an equal amount. Without such limits, the issuing of perpetuals would have nominally increased individual banks' capital without resulting in an overall increase in capital for the banking system as a whole.

The Bank of England and the Federal Reserve Board had been

Bolivia Struggles to Turn the Corner

Tough Policies Have Cut Inflation, but Growth Is Elusive

By Shirley Christian
New York Times Service

LA PAZ — Every month, Bolivia's teachers strike for a few days because their paychecks are late. July's strike lasted longer than usual because the teachers were also demanding pay increases.

The government of President Victor Paz Estenssoro vowed that it would close schools if there were no teachers in the classrooms.

The government took a similar line when petroleum workers went on strike. It said there was no money for wage increases, declared the refineries to be under military direction and said everybody who did not return to work the next day would be dismissed.

In addition to taking a tough stand with the labor unions, Mr. Paz, who took office two years ago, has instituted a public-sector wage freeze, ended price controls and allowed the exchange rate to float freely.

He also proposed that state-owned companies be restructured to reduce the size of the public sector and that the tax system be reformed.

As a result, inflation, which was running at an annual rate of more than 40,000 percent in August 1985, is expected to total between 13 percent and 20 percent this year.

While that has helped to bring back some capital, it still puts working credit beyond the reach of most businessmen and farmers.

And more people are paying taxes, which most Bolivians say they almost never did before. The government says that tax collections will equal 3.5 percent of the gross national product, or total output of goods and services, this year and 10 percent in three years.

But there still are serious problems for the country, which is ranked as one of Latin America's poorest.

The collapse of the international tin market two years ago almost wiped out Bolivia's main legal export. Natural gas, now the chief export, is bringing in

little revenue because the leading buyer, Argentina, has not paid its bill for a year and a half.

And cocaine, which had been bringing in an amount almost equal to all legal exports, has been disrupted by U.S. efforts to attack cocaine processing laboratories.

The action caused Bolivia to ask the United States last year for a \$100 million loan to help defray the cost of reduced exports.

Today, Bolivia is looking for ways to resume growth after five negative years. But international bankers are not eager to invest more in a country that already has an external debt of about \$4 billion.

Flavio Machicado, an economic consultant who served as finance minister in two previous governments, said that Bolivia's long-time economic model, based on tin and state control, was worn out and that the country now had to go through a transition "to a new kind of mining and to new agriculture."

"But the problem," he said, "is how to deal with the social pressures in the meantime, how to feed people and avoid violence."

Bolivia is working with international organizations, including the Inter-American Development Bank and the World Bank, to raise \$1.5 billion for such projects as roads and bridges, oil exploration and the expansion of the mining industry.

As part of the plan, Bolivia intends to sell half of its gold reserves to raise \$100 million, which it would lend to private business to promote exports.

At the same time, the government has developed a two-pronged proposal for dealing with its \$1.1 billion debt to private foreign banks.

The proposal includes an arrangement under which purchasers of debt paper can acquire interests in state-owned companies equal to 50 percent more than the amount they paid for the debt.

Bolivia has also offered to buy back part of its debt from the banks at a percentage of face value that has not been announced but is thought to be 15 percent to 20 percent.

U.S. Bonds Perk Up as Congress Acts

NEW YORK — U.S. bond prices showed strength last week, buoyed by weakening oil prices and expectation among securities dealers and institutional investors that Congress would succeed in extending the government's debt ceiling.

After trading closed Friday,

those expectations were fulfilled when the House of Representatives and Senate approved a temporary

Year	Consumer Rates	Aug. 7
Year	Consumer Rates	7.34%
Money Market Funds		4.17%
Bank Money Market Accounts		5.41%
Home Mortgages, F.H.L. surveys		11.29%

Source: New York Times.

debt-limit increase to \$2.35 trillion, which is effective through Sept. 23.

By late Friday, the Treasury's 30-year 8 1/2 percent bonds were offered at 98 13/32, up 11/32, to yield 8.90 percent.

Uncertainties about the Treasury's quarterly refunding, scheduled for next week, had weighed heavily on the bond market.

"Although there were fluctuations today, the bond market has been in a bullish mood most of the week," said Theodore Tung, chief economist of the National City Bank in Cleveland. "Basically two

BANQUE NATIONALE DE PARIS

US\$400,000,000 Floating rate notes 1984 due 1995

The rate of interest applicable to the interest period from August 6, 1987 to February 8, 1988 as determined by the reference Agent is 7 1/4% per annum, namely U.S. \$998.96 per bond of US\$10,000.

Herald Tribune

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SELECTED U.S./D.T. QUOTATIONS

	BID	ASK
Alan Jones Pil Stop	2 1/4	2 3/4
Bitzer Corp.	1 3/4	2 1/4
Chiron	24 1/2	26 1/4
GoodMark Foods	18 1/2	19 1/2
MAG Holdings	4	4 1/4
NAV-AIR	3 1/2	3 3/4
Spectrolyne	4 1/4	4 1/2

WITH COMPLIMENTS OF CONTINENTAL AMERICAN
These are indicative prices as of August 6, 1987

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

Table with columns: 100s High Low Close Chgs, listing various stock symbols and their prices.

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Mutual Funds

Figures as of close of trading Friday.

Table listing mutual fund symbols, names, and performance metrics.

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American Exchange Options

Figures as of close of trading Friday.

Table listing American Exchange Options with columns for call and put prices, and other market data.

SPORTS

Several Soviet Hockey Stars May Be Headed for the NHL

STOCKHOLM — Igor Dmitriev, who reportedly will be the next national Soviet ice hockey coach, said Saturday that he would not be surprised if several of his stars are in National Hockey League uniforms as early as next season.

"The players will get an extra motivation if they get a chance to play as professionals," said Dmitriev, currently the squad's assistant coach.

The team is here to play Sweden in two exhibition matches.

"It wouldn't surprise me if at least 20 Soviet players perform in the NHL in the next couple of seasons," Dmitriev said.

Tigers Win, 15-5, Drop Yanks Out of First

DETROIT — Darrell Evans hit a two-run home run Sunday to cap a nine-run fourth inning and Alan Trammell, Bill Madlock and Matt Nokes also homered as the Detroit Tigers routed New York, 15-4, and again knocked the Yankees out of first place again in the American League East.

The Tigers won three of the four games of the series and outscored the Yankees, 35-16. The Toronto Blue Jays, who beat the Cleveland Indians, took a half-game lead over

second place in the American League West, less than a percentage point behind the Athletics. They outscored the Athletics, 34-17, in the outscored and got their seventh four-homer game of the season.

Orioles 5, Rangers 4: In Baltimore, Ray Knight's pinch-single with two out in the ninth drove in the run that beat Texas.

Royals 8, Red Sox 3: In Boston, Kevin Seitzer and Steve Balboni each got three hits and rookie reliever John Davis got his first major league victory.

Davis, called up from the minors July 21, bailed out starter Bud Black after the Red Sox tied at 3 in the third and allowed only four hits in 6 1/2 innings.

Giants 3, Reds 2: In the National League, in San Francisco, Mike Krutlow held Cincinnati to five hits for 8 1/2 innings and Will Clark homered to help win the first game of a doubleheader.

Krutlow did not allow a hit until Barry Larkin singled with one out in the sixth, as the Giants won their third straight over the Reds and their seventh straight at home.

Twins 7, Athletics 5: In Minneapolis, Kent Hrbek, Tom Brunansky, Tim Lardner and Gary Gaetti homered in helping sweep a four-game series against Oakland.

Red Sox 8, Royals 3: In Boston, rookie Ellis Burks went 3-for-3 with two doubles and a two-run home run, against Kansas City.

Rangers 11, Orioles 5: In Baltimore, Tom O'Malley's three-run homer and Oddie McDowell's two-run shot helped Texas win.

Twins 9, Athletics 2: In Minneapolis, Kirby Puckett went four for four and scored four runs against Oakland in support of Steve Carlton's 329th victory in the majors.

Brewers 5, White Sox 3: In Chicago, Ron Hassey got three of his team's 13 hits in the second game of a doubleheader split with Milwaukee.

Mariners 5, Angels 3: In Seattle, Alvin Davis's two-run homer began the defeat of California. (UPI, AP)

Hammaker 4-Hits Reds as Giants Win

SAN FRANCISCO — Albee Hammaker pitched a four-hitter Saturday and Will Clark drove in two runs to help beat Cincinnati, 5-2, and pull the San Francisco Giants to within three games of the first-place Reds in the National League's West Division.

Hammaker gave up only a second-inning single to Tracy Jones and an eighth-inning home run by Eric Davis through eight innings en route to his second complete game this year.

The Reds' manager, Pete Rose, said of his starter, Tom Browning, "He's given up three, four, five runs in the first inning almost every game recently. He's got to give his team a better chance."

Braves 9, Dodgers 7: In Los Angeles, Dale Murphy homered twice and drove in four runs and Gerald Perry got three hits, one a two-run home run, for Atlanta.

SATURDAY BASEBALL

Padres 4, Astros 3: In San Diego, John Kruk homered in the seventh and singled in Tony Gwynn from second with one out in the 10th to beat Houston.

Pirates 5, Expos 2: In Pittsburgh, R.J. Reynolds went 3-for-4, homered and had three RBIs against Montreal.

Cardinals 9, Phillies 5: In Philadelphia, Tommy Herr homered, doubled twice, singled and drove in three runs and Tony Pena hit a three-run home run for St. Louis.

Cubs 5, Mets 3: In New York, Dave Martinez and Luis Quinones each got two RBIs and Chicago, with 16 hits, ended the Mets' seven-game winning streak. Jay Baller struck out Howard Johnson with the bases loaded to end the seventh and preserve a one-run lead.

Yankees 7, Tigers 0: In the American League, in Detroit, Tommy John pitched a two-hitter for his first shutout since 1984 and

WORLD STOCKS IN REVIEW / Via Agence France-Press

Amsterdam

The focus on the Amsterdam stock market last week was again on publishing companies, as the outcome of the battle for Kluwer remained unclear.

The situation was complicated by the announcement of the British publisher Robert Maxwell that he would seek cooperation with Elsevier, a Kluwer bidder. Elsevier's shares gained 20 percent to 67 guilders.

All major stocks were substantially higher on the week.

Prices fell over a broad front on Monday on increased tension in the Middle East. On Tuesday, the publishing sector again dominated, and Wednesday saw hectic trading centering on Elsevier and Kluwer.

On Thursday, the market was strong, with the CBS international index rising 3.1 to a record 358.6. On Friday, the trade index reached an all-time high of 457.5.

Market turnover was 7.67 billion guilders for the week, against 5.48 billion the previous week.

Kempen & Co. stockbrokers in Amsterdam said the short-term outlook is positive, as the dollar shows no signs of weakening.

Frankfurt

West German stocks made new gains last week with the Commerzbank index climbing 52.3 points to 2,039, its highest since the start of the year.

The dollar's strength, at about 1.90 Deutsche marks, stimulated the eight West German exchanges because of the possible boost it offers to German exports. Most West German blue chip shares enjoyed strong foreign demand.

Volume reached 33.8 billion DM, against 24.79 billion the previous week.

Auto stocks rose, with Volkswagen up by 9.20 DM, BMW by 11, and Daimler 43.

Among electricals, Siemens gained 16.50 DM to close at 711 and AEG 9 DM to 341. The Linde consumer goods group gained 21 DM to 784.

Banks remained strong, notably Deutsche Bank, which gained 53 marks.

Hong Kong

The Hong Kong stock market finished last week on another high, with the Hang Seng Index gaining 38.24 points Friday to close at a record 3,536.19, up 56.95 on the previous week.

It was the third record of the week, with dealers apparently keen to buy after the market lost ground Wednesday and Thursday.

Average daily turnover was 2.46 billion Hong Kong dollars, soaring past the previous week's 1.88 billion.

Dealers said the market was in a bullish mood and that the high turnover was likely to continue in the short term.

London

Nervousness about the Middle-East and key economic indicators, notably next Tuesday's trade figures, sent shares sharply down from the outset on the London Stock Exchange last week.

Singapore

Singapore shares were strongly supported in a holiday-shortened week by interest from overseas and local institutions.

Gains were noted in all sectors, sending the Straits Times industrial index to a new high of 1,464.22, with a gain of 64.24 points for the week.

Total volume was slightly reduced because of the holiday, reaching 165.9 million shares, valued at 526.9 million Singapore dollars.

Tokyo

Tokyo stocks overcame early setbacks last week to notch up their third consecutive weekly advance. The 225-issue Nikkei Average gained 312.84 yen to close Friday at 24,800.95 yen.

The market was bearish Monday and Tuesday amid fears that tension in the Gulf would cause a further rise in oil prices. But feeling changed Wednesday, as the Gulf situation appeared calmer. Buying strengthened Thursday and Friday, spurred by Thursday's latest record-breaking run on Wall Street.

Sony rose to 4,910 yen Friday up from 4,780 a week ago. Nippon Steel rose to 130 yen from 121, civil engineering company Taisei Corp. to 1,070 yen from 999 and engineering company Kajima to 1,790 yen from 1,640.

Many market analysts agreed that the bull trend would continue this week with institutional investors, who have tended to stay on the sidelines, expected to come back to the market.

Zurich

The Zurich stock market had another good week, and observers said the trend should continue in the absence of serious incidents in the Gulf.

The Credit Suisse index closed the week at 592.6, against 583 the previous week, while the Swiss Bank Corp. index closed at 691.2, against 674.3. Both were record highs, and analysts said the Swiss Bank index should easily move above 700 this week.

Bank stocks remained very firm, especially Swiss Bank Corp., which was up 21 to 516. Financial companies did well, with Oerlikon-Bührle rising by 35 to 1,485.

Milan

Milan stocks dived last week, as the crisis in the Gulf coincided with the traditionally slack buying interest of midsummer.

The Comit index fell 4.36 percent over the week to close at 657.43, its lowest this year. An average of 16 million shares were traded each day, for an average value of 64.5 billion lire, against 62 million shares and 358 billion lire the previous week.

The market has lost around 9 percent of its value in the past seven months, and every sector has been affected.

Olivetti closed the week 5.56 percent down; Fiat ordinary lost 4.49 percent to reach a 1987

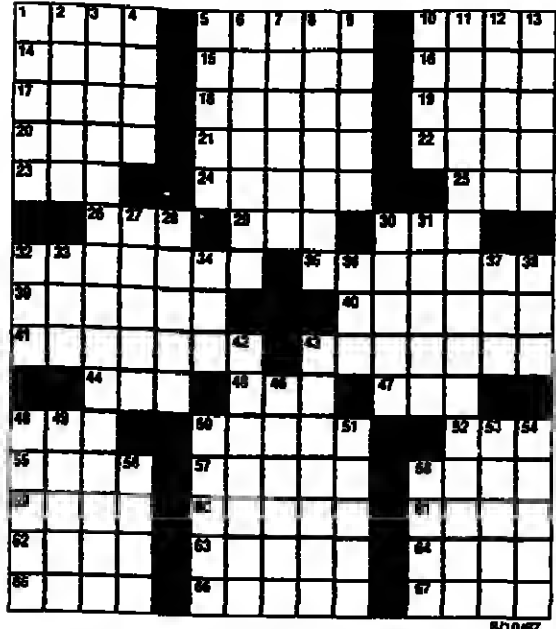
low, Montedison, launching a takeover bid for Total-Italie, finished 5.84 percent down.

Paris: Middle East developments and a sharp rise in European interest rates last week temporarily ruined Paris Bourse hopes for an August rally. The CAC index finished the week at 410.4, against 414.7 the previous Friday.

Prices dropped on Monday and Tuesday, but rallied somewhat on Wednesday as Iranian maneuvers in the Gulf proved incident-free.

The tone was better on Thursday, helped by lower prices on world oil markets and a good Wall Street performance.

Observers noted that some foreign investors were beginning to return to the market, and London brokers expressed optimism about Paris stock prices during the next several weeks. French analysts said that Paris shares had dropped to attractive levels.



ACROSS
1 Fortune
5 Supply food for a foe
10 Basis of the decimal system
14 Harrow rival
15 Overhead
16 Oodles
17 Apt anagram for evil
18 Hay bundles
19 Big bean
20 French magazine for women
21 Wide-awake
22 Absolute ruler
23 Actress
24 Ore pockets
25 Lemon drink
26 Mysterious power
29 Us, to Ovid
30 Shoot the breeze
32 Pedigree
35 Harass
39 Salad plant
40 Goader
41 What hams chew up
43 Nips
44 Marry
45 Cash follower

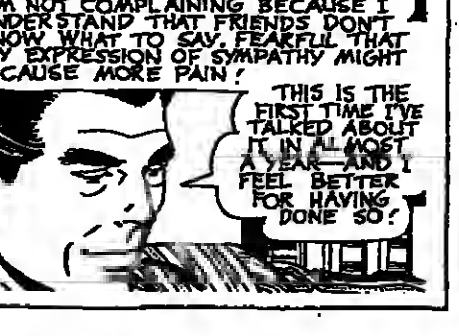
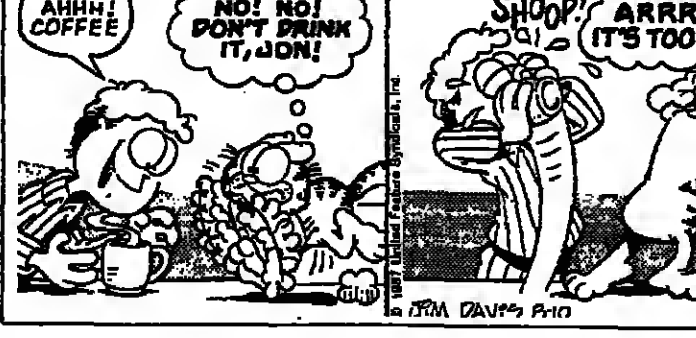
Solution to Friday's Puzzle. A grid of words and their corresponding letters.



JUMBLE: THAT SCRAMBLED WORD GAME by Heini Arnold and Bob Lee. Includes a grid of letters and a cartoon illustration.

WEATHER table with columns for EUROPE, ASIA, NORTH AMERICA, MIDDLE EAST, and OCEANIA, listing high and low temperatures for various cities.

TODAY'S FORECAST - CHANNEL: Smooth, FRANKFURT: Cloudy, Temp. 18-21 (64-69). LONDON: Cloudy, Temp. 17-19 (63-66).



COMBINED CURRENCY STOCK INDEX GRAPH



SPORTS

McCumber, Weibring Tied for PGA Lead

By Thomas Boswell

WASHINGTON POST SERVICE PALM BEACH GARDENS, Fla. — Larry Mizze, born and raised in Georgia, was the 1969 and 1982 PGA winner. The most tormented soul by far was Ballesteros. He came here vowing to be a loosey-goosey golfer, out for a good time. So after birdies at Nos. 5, 6 and 10 to reach 5-under and the lead, what did the Spaniard do? He went back on his word to play aggressively and daringly. He pulled out a 2-iron at the 441-yard 16th hole and a 1-iron at the 541-yard 18th, hitting them both into water. Hello double bogey and bogey.

In a summation that instantly made golfing lore, Ballesteros said: "I'm trying to convince myself that I'm a happy man." As if Ballesteros needed any further aggravation, he was to be paired on Sunday with Lanny Wadkins and Floyd. Floyd, the high-stakes gambler, is renowned for "the look" — a reflection of such self-absorption that he walks right past his own wife. With his fast swing, grumpy temper and cocky air, Wadkins is nobody's favorite last-round partner.

Of all this event's subplots, one of the best is the possibility of a Wadkins-vs-Wadkins shoot-out. Lanny Wadkins is headed for golf's hall of fame. Bobby Wadkins has cashed over a million dollars in checks but has never won a tour event. But if he wins here, he'll equal his brother's career total in majors — one PGA.

On such a fascinating scoreboard, the man who's easy to miss is Weibring, simply because he's only won once in 11 seasons on tour and is visibly hung up on shaking his Never On Sunday tag. "I've been around. I welcome the challenge," said Weibring, who probably had the week's best ball-striking round on Saturday, hitting every fairway and never making a bogey.

"I've reached a lot of the goals I've set in golf and in my life. But I kept getting it thrown back in my face that all I've ever won is the Quad Cities Open. I understand that. But I want to change it," added Weibring, a sports psychology aficionado whose mantra for the week is: "Be as mentally engaged, yet as physically relaxed as possible."

All around McCumber are men on quests. The Wadkins brothers. The driven Floyd who wants badly to make the Ryder Cup team. The frustrated Weibring who wants to vindicate his competitive heart. And Ballesteros, the man who would be happy.

straight up in the air. I know that when you drive it into the rough you don't even think about going for the green. You're lucky if you can control a 60-yard wedge shot well enough to put it back in the fairway.

Few have been able to cope with the vicissitudes of this course. Lanny Wadkins, co-leader with Floyd at the start of play on Saturday (see Scoreboard), began birdie-par-birdie and reached 6-under to lead alone. The next 10 holes he played in 5-over-par, digging himself deep into his infamous funk.

Floyd suffered almost as much. The leader alone at 5-under through six holes, he went from rough to rough for a double bogey on the 222-yard seventh. It took him two hours to recover his momentum, but birdies at the 17th and 18th holes revived his spirits and his



Mark McCumber: Feeling right at home.



English Soccer Squad Defeats The Rest of the World, 3-0

Two goals by Bryan Robson and one by Norman Whiteside gave the English League a 3-0 victory over Diego Maradona (working, above right, against Paul McGrath) and his Rest of the World teammates in a soccer match Saturday at London's Wembley Stadium. Televised live to 63 countries, the game marked the start of the league's centenary season and drew players from 16 nations. Maradona, who plays for Italian titans Napoli, was paid £90,000 pounds to appear in England for the first time since he scored both goals — one on a controversial first shot — in Argentina's 2-1 decision over England in last year's World Cup.

SCOREBOARD

Table with columns for Baseball, Golf, and PGA Championship. Includes sub-sections for Friday's and Saturday's Major League Line Scores, National League, and American League.

Hut-Hut: U.S. Football Rules at Wembley

WEMBLEY, England — In a National Football League exhibition game played on one of soccer's most-hallowed fields, runner-back Charles White stumbled into the end zone from four yards out with 28 seconds to play Sunday night and gave the Los Angeles Rams a 28-27 victory over the Denver Broncos.

NFL Faces Big Questions Before Testing for AIDS

NEW YORK — A number of teams in the National Football League have announced plans for voluntary testing for the AIDS virus. The players generally think it is a good idea. But AIDS researchers, arguing that players are far more likely to die from a head injury than from AIDS contracted on the playing field, say that the testing will set AIDS education back to the dark ages.

Transition

CORNELL (IOWA) — Added the position of football coach to the duties of Steve Miller, basketball coach and athletic director.

European Soccer

WEST GERMAN FIRST DIVISION Wolfsburg 1, Borussia Dortmund 0. Bayern Muenchen 1, Eintracht Frankfurt 0.

Football

WEST VIRGINIA — Named Carol Dugan women's basketball coach, assistant track coach and physical education instructor.

Tennis

NEWS TOURNAMENTS Querfurt, Austria. Mieslav Hradil (11), Czechoslovakia, def. Ronald Aigner, Haiti, 6-4, 6-4.

Auto Racing

HUNGARIAN GRAND PRIX (A) Budapest. 1. Nelson Piquet, Brazil, Williams, 1 hour, 59 min. 56.290 sec.

Major League Standings

Table showing American League and National League standings for East and West divisions, including teams like New York Yankees, Detroit Tigers, and St. Louis Cardinals.

CFL Standings

Table showing CFL standings for Eastern and Western divisions, including teams like Winnipeg, Toronto, and Montreal.

SPORTS BRIEFS

Piquet Wins 2d Straight Grand Prix. BUDAPEST (UPI) — Brazilian Nelson Piquet benefited from teammate Nigel Mansell's misfortune to win the Hungarian Grand Prix Sunday and strengthen his lead in the Formula One driver championship standings.

European Soccer

WEST GERMAN FIRST DIVISION Wolfsburg 1, Borussia Dortmund 0. Bayern Muenchen 1, Eintracht Frankfurt 0.

Auto Racing

HUNGARIAN GRAND PRIX (A) Budapest. 1. Nelson Piquet, Brazil, Williams, 1 hour, 59 min. 56.290 sec.

Major League Standings

Small table showing American League and National League standings.

CFL Standings

Small table showing CFL standings.

LANGUAGE

Dutch Family Life on a Rhine Barge

By Ronald van de Krol
ABOARD THE LEONTINE
Willy Kreusch's twin daughters play at his feet as the maneuvers the barge and its 3,000-ton load of Brazilian iron ore around a wide bend in the river.



The Kreuschs on their barge, the Leontine.

Modern communications have helped break down the isolation that used to be the lot of barge families. Ship-to-shore radio now keeps them in touch with family and friends, while television and video-recorders bring popular culture into their living quarters.

Head Over Googols in Zero Options

By Alan W. Powers
THE U.S. budget and the national debt are both getting higher than most of us can count. Rather than appear to be baffled by what is after a trillion, Congress wants to reduce the numbers. But just in case it does not succeed, we had better all gain a passing familiarity with macronumeration.

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